

# Kovack Securities, Inc.

## Regulation Best Interest Disclosure

Dated: January 12, 2026



### Product, Services, and Conflicts Disclosures

Kovack Securities, Inc. ("KSI") is registered with the Securities and Exchange Commission ("[SEC](#)") as a broker-dealer and its affiliate, Kovack Advisors, Inc. ("KAI") is registered as an investment adviser with the SEC. KSI and KAI are under common ownership. KSI is a member of the Financial Industry Regulatory Authority ("[FINRA](#)"), the Municipal Securities Rulemaking Board ("[MSRB](#)") and Securities Investors Protection Corporation ("[SIPC](#)"). Securities are offered through KSI, Member FINRA/SIPC. Kovack Financial Network is a name used to collectively refer to KAI and KSI. KAI and KSI are subsidiaries of Kovack Financial, LLC.

The following disclosures are designed to assist clients in understanding important aspects of the products and services we may recommend, but is not all-inclusive, nor should it be considered a substitute for any product's prospectus or offering document. This document is intended only to summarize key features of some of the product classes we may recommend as well as outline conflicts we have regarding these products. Should you have questions, do not hesitate to contact your financial professional. Always read the prospectus before making a decision to invest. This disclosure is intended to satisfy our obligations under Regulation Best Interest, and does not modify any other agreement you have with us. Our obligations under Regulation Best Interest apply when we make a recommendation of a type of account with us, a securities transaction in a brokerage account with us, or recommend that you roll over assets to an account with us, such as a rollover IRA account.

While we may make a recommendation to you for an account type, a specific securities product, or an investment strategy, the ultimate decision about whether to invest is yours. You may accept or reject any recommendation we make. Additionally, depending on the product or service we are recommending, there are conflicts of interest you should consider in determining whether to accept any recommendation we make. Those conflicts are outlined in this document and in our Form CRS (Customer Relationship Summary). You should also consider any conflicts that are disclosed in the account agreement and the product prospectus or offering document. You may also search for offering documents and company reports at the SEC's Edgar database here: <http://www.sec.gov/edgar.shtml> Should you have any questions, please contact your financial professional or ask us for more information.

When you opt for a securities brokerage account, we do not offer account monitoring services. This means that, while we use reasonable care and skill at the time we make the recommendation, we do not provide ongoing monitoring of the account or your investments. Should you prefer that type of relationship, consider our advisory accounts rather than a brokerage account.

### Investing Risks

We must use reasonable care and skill in making recommendations to you. We base our recommendations on information you disclose to us (called your investment profile). It is important that you review your investment profile information frequently and update us if it changes. You should be aware that investments in securities involve risks and you may lose money, up to and including the entire amount of your investment. Because the nature of investing involves risk, we make no guarantee that you will achieve your investment goals.

Some of the products we offer have more risk than others. It is important to understand that products offering higher returns often involve a greater degree of risk. If you cannot afford to lose the money you are investing, you should tell your financial professional that you are a conservative investor and complete your investment profile in a manner that indicates your risk tolerance is low. This will help to ensure your financial professional's recommendations to you take these factors into account.

### Standard Brokerage Accounts

When you establish a standard brokerage account through us, the account is held through one of our clearing brokers. Our clearing brokers execute transactions at our request and maintain custody of your funds and securities. We will either trade on an agency basis (as agent for you) and charge a commission, or act as principal, purchasing or selling a security solely to fill your order (often referred to as riskless principal). Your transaction confirmation will disclose the capacity in which we acted, agency or principal. Our standard brokerage account is a cash account, meaning that you must pay for transactions as they occur.

We offer other types of accounts, including accounts held directly with our product sponsors such as a mutual fund or annuity company. This is also the case for Section 529 educational savings accounts. We also offer individual retirement accounts (IRAs). Regardless of the type of account you select, you should review the account agreement for more details about that specific account type.

We offer several cash settlement options in brokerage accounts, depending on which of our clearing brokers hold your account. These options direct us on how to hold cash funds that are pending investment in your account, to settle securities transactions, and to cover fees and other disbursements. You should review the options available in your account with your financial professional. Available options may include a cash credit balance, an FDIC bank sweep deposit option, a money market fund you select, or a money market fund we select if you do not choose an option. Please see the prospectus for your settlement option for more information. Note that these programs are not intended as long-term investment strategies, rather they are options for holding cash in the short-term such as during periods when the funds are awaiting investment. This is because the rates of return on these options are typically very low and there are other options available that may achieve the same objective while earning a higher rate of return. See the section “Cash Sweep Programs” below for more information about how we earn money on these balances and conflicts we have.

## Margin Accounts

Brokerage accounts come in several types. Typically, a brokerage account is a cash account meaning that you pay for your securities transactions with cash in the account or you pay for each transaction by settlement date by transferring funds into the account. However, a margin account involves borrowing money from your brokerage firm (typically the clearing agent) to purchase securities. The portion of the purchase price that you must deposit is called margin and is your initial equity or value in the account. The loan from the firm is secured by the securities you purchase. If the securities you're using as collateral go down in price, your firm can issue a margin call, which is a demand that you repay all or part of the loan with cash, a deposit of securities from outside your account, or by selling some of the securities in your account. Margin loans involve interest which you must pay regardless of whether you make or lose money on your investments. Additionally, you must maintain minimum margin, meaning you must meet the margin requirements of your brokerage firm. If the value of an investment declines, you may be required to deposit more money or liquidate your positions. While we attempt to contact you if there is a margin call, we can liquidate your positions without contacting you to satisfy the margin call, and you may not be entitled to choose which securities or assets in your account are sold. Also, with margin, you can lose more money than you deposit in the account. And, margin requirements can change from time to time. If you have a margin account, make sure you understand how the margin account works and you know the margin rules. Also, because we earn more money when you engage in more transactions, and we earn money on margin interest you pay, we have a conflict of interest in recommending a margin account. For more information about margin accounts and the use of margin visit FINRA's investor alert here:

<https://www.finra.org/investors/alerts/investing-borrowed-funds-no-margin-error>

## Standard Brokerage Products

We offer various products in brokerage accounts, including but not limited to stocks, bonds, options, mutual funds, and others. When we sell these products, we send you a confirmation at or before the completion of the transaction. You should carefully review the transaction confirmation for additional details about the transaction.

## Variable Annuities and Other Insurance Products

Variable annuities offer investment features that may be similar to mutual funds, but they are not the same. Variable annuities commonly offer tax-deferred treatment of earnings, a death benefit, and annuity payout options that can provide certain guarantees of income over the lifetime of the annuitant. The products typically have an accumulation phase during which premium payments are made and the payments are accumulated and invested into the various sub-account options available in the product. The distribution phase is when you withdraw money, either as a lump sum, or as a series of annuity payments. A variable annuity fluctuates in value because the value of the sub-accounts changes over time. For this reason, there is a risk that a purchaser of a variable annuity may lose money.

Variable annuities typically have surrender charges. This means that if you sell your annuity before a specified date, you may pay a surrender charge. Sometimes there is a percentage that can be withdrawn each year without penalty. Surrender fees in variable annuities typically range from 0% to 7% of the purchase price and may last up to ten years, depending on the product. There are also fees for the insurance features of the product, called mortality and expense risk charges, administrative fees, policy fees, charges for riders and other special features, as well as fees for the sub-accounts you select. These ongoing fees can range up to 3% of the annuity's value per year. Variable annuities can have higher costs than other products, particularly if there are riders selected. For this reason, we have an incentive to sell variable annuities and their optional features. This creates a conflict of interest. However, we maintain procedures to mitigate this conflict.

Other important features include:

- Variable annuities are long-term investments. They should not be purchased with funds that are needed in the short-term.

- Certain features of variable annuities are subject to the ability of the insurance company to pay claims.
- Annuity proceeds are taxed as ordinary income, rather than capital gains, which also means that beneficiaries will not receive a step-up in the cost basis upon the death of the owner.
- Withdrawals made before age 59 ½ can result in a 10% tax penalty.
- While most insurance products offer a free-look period during which you may cancel without penalty, you will still bear any market losses during this period.
- Annuities have varying share classes. “B” shares typically have the lowest annual charges and surrender periods of 6-8 years. “L” shares have higher annual charges than “B” shares, and shorter surrender periods (3-4 years). “C” shares have the highest annual fees, with full liquidity (no surrender periods).
- Certain variable products offer bonus shares that provide for or payments to you at the time of purchase, but these annuities also charge higher ongoing expenses and/or surrender fees than those not offering the bonus feature. They also may have longer surrender periods (8-9 years).
- Tax deferral features of variable annuities are not necessary when the product is sold within an IRA or tax-qualified account. As such, variable annuity purchases within an IRA or similar account should be for a feature other than tax-deferral such as guaranteed income, annuitization, or others. Also, it is important to remember that IRA accounts typically require minimum required distributions and selling a variable annuity to satisfy these distributions may result in a surrender charge if the RMD exceeds any penalty-free withdrawal provision in the annuity.
- Your financial professional typically earns higher compensation on variable annuity products than some other products like stocks, bonds or mutual funds.
- Registered Index-Linked Annuities (RILAs), also known as structured or buffered annuities, are securities registered with the SEC. These products offer exposure to equity index performance subject to limits (caps, spreads) and downside protection (called buffers or floors). They are considered complex investment products and are not appropriate for all investors. The following apply to RILAs:
  - unlike other investments, such as mutual funds, RILA investors periodically realize gains and losses at the end of each crediting period, essentially forcing liquidation (the sale of the investment option) at a specified date, even if market conditions are unfavorable;
  - the performance of an index-linked option may be based on a “price return” index rather than a “total return” index, which typically results in a lower return since a price return index does not reflect reinvestment of dividends of the underlying securities;
  - while most RILAs have no explicit fees (other than surrender charges), a RILA’s bounded return structure is a feature of RILA contracts that generally will limit the investor’s gains if the performance of the index goes up in value, as well as limit the investor’s losses if the performance of the index goes down in value. This bounded return structure requires investors to agree to tradeoffs that come with their own economic costs and benefits, typically by:
    - limiting the ability of investors to take certain actions during the crediting period (e.g., surrender, withdrawal, payment of a death benefit, start of annuity payments, change of investment) without bearing adjustments, which can be negative and can result in significant loss;
    - limiting investors’ abilities to participate in upside index performance (through features such as cap rates or participation rates); and
    - limiting investors’ losses if the performance of the index goes down in value (through features such as buffers or floors).

When you purchase a variable insurance product, we will provide you with additional disclosure documents including an insurance contract, application, and a prospectus. These documents contain additional information you should consider before investing.

## Variable Life Insurance

Variable life insurance has life insurance features and offers exposure to the markets. Similar to traditional life insurance, variable life insurance offers a death benefit that represents the amount the life insurance company is obligated to pay upon the death of the insured. In addition to the death benefit, variable life insurance has an investment element usually termed the “cash value.” However, the insurance company that issues the variable life insurance policy does not guarantee the cash value. Instead, the cash value and in some cases, the death benefit, can fluctuate based on the performance of investment portfolios. The investment portfolios are often called “subaccounts.” The subaccounts are invested in distinct underlying fund portfolios. A customer’s policy premium payments, after deductions for any sales expense charges or premium tax charges, are applied to the subaccounts and any general account options in accordance with the customer’s allocation election. The value of the subaccounts will fluctuate in accordance with the investment experience of the underlying funds.

Typically, the primary charges associated with a variable life insurance policy are front-end sales loads, back-end sales loads, administrative charges, cost of insurance charges, mortality and expense risk charges, and various fees associated with each underlying subaccount option. The cost of insurance can vary significantly depending on the individual's personal circumstances (e.g., age, sex, health, smoker/nonsmoker, face amount of policy).

Other important considerations include:

- Variable life insurance policies typically allow the net premiums to be allocated to the Fixed Account (in most states), or to subaccounts you select. Each subaccount, in turn, invests in a corresponding portfolio of an underlying security.
- “Net Premiums” is the gross premium you pay into the product minus certain premium expense charges, as described in the Prospectus which you should review carefully.
- As described in the prospectus, charges and expenses will be deducted monthly from the value of the policy for certain administrative costs, the cost of insurance and any optional benefits added by rider. These fees vary and can be substantial. See the prospectus for specific details on the product you select.
- Loans and withdrawals from (or a total surrender of) a variable life insurance policy could be subject to certain limitations and charges, including interest charges on policy loans, surrender or withdrawal charges for early withdrawal or surrender of the policy and potentially altering the proceeds and/or the amount of premium under the policy and other conditions, all of which are more fully detailed in the prospectus.
- Policy illustrations, if provided, show how the performance of the investment sub-accounts could affect the values and death benefit of a policy over time. Policy illustrations show the effects of charges and expenses on future policy values, based on assumption of future hypothetical investment rates of return and assumptions as to what policy factors will then be in effect. The investment rates of return used in illustrations are hypothetical only and should not be deemed to represent past or future investment results.
- Future policy values depend upon the actual investment results of the sub-accounts credited to the fixed account if selected; the amount and timing of premium payments, and cash withdrawals or loans; and the cost of insurance rates which are subject to contractual guarantees. Policy values may be more or less than premiums paid.
- Kovack Securities, Inc. does not offer legal or tax advice pertaining to life insurance. You should consult with your own professional legal and tax advisor as you deem necessary.
- You should disclose to your financial professional any existing insurance coverage that you currently hold and any of those policies that you will or may replace as a result of any new coverage for which you are applying.
- The monies you pay for the policy are premiums for a life insurance policy, not an investment directly into securities.

Lastly, because variable life insurance products can have substantial costs and fees, we have an incentive to recommend them and this is a conflict of interest. However, we maintain procedures to mitigate this conflict.

## Exchanging Insurance Products

Features of insurance products make them appropriate generally only for long-term investors. That is why exchanging an insurance product can result in a loss of benefits like the guaranteed death benefit and the living benefit amount. Also, if you exchange your annuity product prior to the end of the surrender period, you could pay a surrender fee. Also, when you buy a new insurance product it may subject you to a new surrender period, often significantly longer than the remaining surrender period in your old product (if you had one). The new product will likely have different investment options, fees, and features. Make sure you understand the features you are giving up in an exchange transaction, and what you will gain in the new annuity. Also, if an exchange involves a bonus product (a bonus paid on the new product) it is important to understand that the fees of the new product may be higher in order to offset the amount of the bonus payment. Ask your financial professional for a detailed comparison of the old product and the new to ensure you understand the differences. Lastly, if you are selling or liquidating all or part of your annuity contract to purchase another investment product (not part of a tax-free exchange) you may owe ordinary income taxes on the liquidation amount, you may have to pay early withdrawal penalties, and there may be other features you lose as a result. Finally, because we earn fees when we exchange your annuities, we have an incentive to recommend an exchange which is a conflict of interest. We maintain procedures to mitigate this conflict. For more information about annuity exchanges visit <https://www.finra.org/sites/default/files/InvestorDocument/p125849.pdf>

## Equity-Indexed Annuities

Equity-indexed annuities are contracts between the investor and the insurance company that typically guarantee a minimum return. Often the products involve complex calculations or indexing methods that determine the gain based on a comparison to a market index. Rates of return vary. While these products are typically fixed insurance products, they do not have uniform features and will vary by

issuer and product. You should carefully review the prospectus/offering documents for more details on the specific product you are considering.

Additionally, consider the following:

- The monies you pay for the contract are purchase payments to an annuity contract, not an investment directly into a security.
- An annual contract charge may be deducted from the value of the contract on each contract anniversary.
- A portion of the principal may be subject to market risk.
- Loans and partial withdrawals will reduce the amount of any death benefits payable.
- Initial and ongoing expenses may be associated with this product. Mortality and expense charges, contract fees administrative charges, death or living benefit costs, rider costs and other expenses may apply.
- Dividends may be fixed or may be subject to the performance of market-based investments.
- The contract may not provide access to your funds prior to the income start date, other than the payment of the death benefit.
- You may lose money if you choose to liquidate and pay an early withdrawal and/or tax penalty. This includes possible loss of credit if you surrender the product early.
- Even a guaranteed product can lose money if the guarantee is less than the full amount of the purchase payments.
- Like other annuities, any guarantee is subject to the ability of the insurance company to pay. You should carefully review the index calculation with your financial professional and make sure you understand how the calculation works. For example, you may participate in only a portion of the upside of the index and interest rates may be capped. Ask about the indexing method used for the product you are considering. Make sure you understand the calculation and any penalties or fees associated with early withdrawals.

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

## **Mutual Funds**

When investing in mutual funds, it is important to understand the various features of the funds. Generally, there are two primary types. First there are open-ended mutual funds, which are constantly offering shares, and redeem shares when the investor sells based on the value of the fund's assets. Second there are closed-end funds which are offered with a fixed number of shares and typically trade on exchanges like stocks.

Investors must consider the objectives of a fund and whether those objectives (and related risks) are aligned with their risk tolerance and investment objectives. Also, it is important to understand the features and costs associated with a mutual fund. As with any investment, fees and costs can impact returns. The funds we offer are typically available in multiple fee structures called share classes, most frequently referred to as A, B, or C share classes. A single mutual fund, with one portfolio and one investment adviser, may offer more than one "class" of its shares to investors. Each class represents a similar interest in the mutual fund's portfolio. The biggest difference between the classes is that the mutual fund will charge you different fees and expenses depending on the class you choose. Remember that these are examples and you must review the prospectus for your particular fund to learn the exact fees.

### ***Mutual Fund Breakpoint Disclosure Statement***

The following statement is made available from FINRA's website and provides information about mutual fund fees. You can find the full statement here: <https://www.finra.org/sites/default/files/Industry/p010543.pdf>

Before investing in mutual funds, it is important that you understand the sales charges, expenses, and management fees that you will be charged, as well as the breakpoint discounts to which you may be entitled. Understanding these charges and breakpoint discounts will assist you in identifying the best investment for your particular needs and may help you reduce the costs of your investment. This disclosure document will give you general background information about these charges and discounts. However, sales charges, expenses, management fees, and breakpoint discounts vary from mutual fund to mutual fund. Therefore, you should discuss these issues with your financial professional and review each mutual fund's prospectus and statement of additional information, which are available from your financial professional, to get the specific information regarding the charges and breakpoint discounts associated with a particular mutual fund.



## *Sales Charges*

Investors that purchase mutual funds must make certain choices, including which funds to purchase and which class share is most advantageous. Each mutual fund has a specified investment strategy. You need to consider whether the mutual fund's investment strategy is compatible with your investment objectives. Additionally, most mutual funds offer different share classes. Although each share class represents a similar interest in the mutual fund's portfolio, the mutual fund will charge you different fees and expenses depending upon your choice of share class. Generally, Class A shares carry a "front-end" sales charge or "load" that is deducted from your investment at the time you buy fund shares. This sales charge is a percentage of your total purchase. As explained below, many mutual funds offer volume discounts to the front-end sales charge assessed on Class A shares at certain predetermined levels of investment, which are called "breakpoint discounts." In contrast, Class B and C shares usually do not carry any front-end sales charges. Instead, investors that purchase Class B or C shares pay asset-based sales charges, which may be higher than the charges associated with Class A shares. Investors that purchase Class B and C shares may also be required to pay a sales charge known as a contingent deferred sales charge or back-end load when they sell their shares, depending upon the rules of the particular mutual fund.

Many mutual fund families offer Rights of Reinstatement ("RoR") to clients who make certain purchases and/or sales. RoRs provide for fee waivers in certain instances, typically for clients who redeem or sell their shares in a fund and then reinvest the proceeds in the same fund or fund family within a limited time period – typically 90 to 120 days. Some fund families offer extended periods up to a year. These rights are subject to terms and conditions and may not be available in every instance. The fee waivers can involve front-end charges and rebates of contingent deferred sales charges. Please read the fund prospectus and ask your financial professional for specific details on RoR for your funds.

## *Breakpoint Discounts*

Most mutual funds offer investors multiple ways to qualify for breakpoint discounts on the sales charge associated with the purchase of Class A shares. In general, most mutual funds provide breakpoint discounts to investors who make large purchases at one time. The extent of the discount depends upon the size of the purchase. Generally, as the amount of the purchase increases, the percentage used to determine the sales load decreases. In fact, the entire sales charge may be waived for investors that make large purchases of Class A shares. Mutual fund prospectuses contain tables that illustrate the available breakpoint discounts and the investment levels at which breakpoint discounts apply. Additionally, most mutual funds allow investors to qualify for breakpoint discounts based upon current holdings from prior purchases through "Rights of Accumulation," and future purchases, based upon "Letters of Intent." This document provides general information regarding Rights of Accumulation and Letters of Intent. However, mutual funds have different rules regarding the availability of Rights of Accumulation and Letters of Intent. Therefore, you should discuss these issues with your financial professional and review the mutual fund prospectus to determine the specific terms upon which a mutual fund offers Rights of Accumulation or Letters of Intent.

1. **Rights of Accumulation** – Many mutual funds allow investors to count the value of previous purchases of the same fund, or another fund within the same fund family, with the value of the current purchase, to qualify for breakpoint discounts. Moreover, mutual funds allow investors to count existing holdings in multiple accounts, such as IRAs or accounts at other broker-dealers, to qualify for breakpoint discounts. Therefore, if you have accounts at other broker-dealers and wish to take advantage of the balances in these accounts to qualify for a breakpoint discount, you must advise your financial professional about those balances. You may need to provide documentation establishing the holdings in those other accounts to your financial professional if you wish to rely upon balances in accounts at another firm.

In addition, many mutual funds allow investors to count the value of holdings in accounts of certain related parties, such as spouses or children, to qualify for breakpoint discounts. Each mutual fund has different rules that govern when relatives may rely upon each other's holdings to qualify for breakpoint discounts. You should consult with your financial professional or review the mutual fund's prospectus or statement of additional information to determine what these rules are for the fund family in which you are investing. If you wish to rely upon the holdings of related parties to qualify for a breakpoint discount, you should advise your financial professional about these accounts. You may need to provide documentation to your financial professional if you wish to rely upon balances in accounts at another firm.

Mutual funds also follow different rules to determine the value of existing holdings. Some funds use the current net asset value (NAV) of existing investments in determining whether an investor qualifies for a breakpoint discount. However, a small number of funds use the historical cost, which is the cost of the initial purchase, to determine eligibility for breakpoint discounts. If the mutual fund uses historical costs, you may need to provide account records, such as confirmation statements or monthly statements, to qualify for a breakpoint discount based upon previous purchases. You should consult with your financial

professional and review the mutual fund's prospectus to determine whether the mutual fund uses either NAV or historical costs to determine breakpoint eligibility.

2. **Letters of Intent** – Most mutual funds allow investors to qualify for breakpoint discounts by signing a Letter of Intent, which commits the investor to purchasing a specified amount of Class A shares within a defined period of time, usually 13 months. For example, if an investor plans to purchase \$50,000 worth of Class A shares over a period of 13 months, but each individual purchase would not qualify for a breakpoint discount, the investor could sign a Letter of Intent at the time of the first purchase and receive the breakpoint discount associated with \$50,000 investments on the first and all subsequent purchases. Additionally, some funds offer retroactive Letters of Intent that allow investors to rely upon purchases in the recent past to qualify for a breakpoint discount. However, if an investor fails to invest the amount required by the Letter of Intent, the fund is entitled to retroactively deduct the correct sales charges based upon the amount that the investor actually invested. If you intend to make several purchases within a 13-month period, you should consult your financial professional and the mutual fund prospectus to determine if it would be beneficial for you to sign a Letter of Intent.

Understanding the availability of breakpoint discounts is important because it may allow you to purchase Class A shares at a lower price. The availability of breakpoint discounts may save you money and may also affect your decision regarding the appropriate share class in which to invest. Therefore, you should discuss the availability of breakpoint discounts with your financial professional and carefully review the mutual fund prospectus and its statement of additional information, which you can get from your financial professional, when choosing among the share classes offered by a mutual fund. More detailed information about share classes is as follows:

- **Class A Shares** – Class A shares typically include a front-end charge. This means that a portion of the funds you invest will go to the sales charge. For example, if you invest \$10,000, and there is a 5% sales load, \$9,500 of your funds will go into the investment. Also, class A shares may impose an ongoing asset-based sales charge (often 0.25 percent per year), but it generally is lower than the charge imposed by the other classes (often 1 percent per year for B and C shares). Depending on the size of your purchase, the fund may offer you discounts on the sales charge, called breakpoints.

Also, you may be able to receive lower sales charges if you agree to regularly purchase the mutual fund in the future or if you already hold funds offered by the same fund family. If you purchase funds from multiple fund families, you may give up the right to discounts you would otherwise receive by purchasing funds from the same fund family.

- **Class B Shares** – Typically these shares have higher ongoing expenses than Class A shares. In other words, the annual expenses are typically higher. However, there is typically no front-end sales load. Instead, there is a surrender charge for shares sold before a certain number of years has passed since the fund was purchased (called a contingent deferred sales charge or CDSC). This means all of your investment goes to work immediately in the fund. Typically, the CDSC period ranges from 4 to 7 years, after which there is no charge to liquidate shares. Typically, a CDSC ranges between 3% and 5% and declines the longer you hold your shares. In some instances, the shares convert from Class B to Class A after the CDSC period ends, thus affording the lower ongoing expenses of a Class A share. Remember also that larger purchases may qualify for reduced sales charges so ask about Class A shares if you intend to purchase more than \$50,000.
- **Class C Shares** – Like Class B shares, these shares do not impose a sales load on the front-end of the purchase. So, all of your funds are invested. However, there are higher internal expenses than Class A shares and they do not convert to Class A shares, so owning Class C shares for a long period of time can result in significant expenses over the long run. Also, Class C shares charge a CDSC upon redemption – typically 1% if you redeem within the first 12 to 18 months after the purchase. Class C shares typically have higher ongoing expenses than both Class A and B shares. For this reason, we have an incentive to sell Class C shares over other classes and thus have a conflict. However, we maintain procedures to mitigate this conflict.

If you are still wondering which share class is best for you, the Financial Industry Regulatory Authority (FINRA) offers a free mutual fund expense analyzer you can access at [https://tools.finra.org/fund\\_analyzer/](https://tools.finra.org/fund_analyzer/). If you wish to learn more about mutual fund share classes or mutual fund breakpoints, you may wish to review the investor alerts available on the FINRA website at [finra.org](https://www.finra.org).

## 529 Educational Savings Plans

Section 529 educational savings plans are tax-advantaged educational savings vehicles. While there is no tax deduction on the contributions, the earnings in the plan can accumulate on a tax-deferred basis. And, withdrawals are not taxed by the federal government when used for “qualified higher education expenses.” While legislation governing the use of the funds has changed over time, generally, funds may also be used for K-12 tuition (up to \$10,000 per taxable year per beneficiary).

Tax rules that apply to college investing options are complicated. Depending upon the laws of the contributor's, or the designated beneficiary's home state, favorable state tax treatment or other benefits offered for investing in 529 educational savings plans may be available only if the contributor and/or beneficiary invests in the home state's 529 educational savings plan. Most 529 educational savings plans will accept both "in-state" and "out-of-state" applicants. Each state's 529 educational savings plan must be evaluated based upon its own merits relative to investment objectives, and the tax effects on the contributors and the beneficiary. Plan holdings could reduce beneficiary's ability to qualify for grants and student loans. Withdrawals for purposes other than qualified higher educational expenses (or other permitted expenses) may be subjected to federal income taxes and a 10% IRS penalty on earnings. Neither Kovack Securities nor the 529 educational savings plans offer legal or tax advice regarding state and federal laws pertaining to 529 educational savings plans or related tax implications. Consult your own professional legal or tax advisor as you deem necessary. You should carefully review the 529 educational savings plan disclosure document or prospectus for specific details on the fees, costs, risks and features of the plan you select. It is important to understand which plan is right for you.

Note that there are plans sold by financial professionals and plans sold directly by the 529 educational savings plan. Plans sold by financial professionals often include sales loads and higher fees and expenses than plans sold directly. Also, like mutual funds discussed above, Class C within 529 educational savings plans typically impose no front-end charge but have higher annual fees. Over long periods of time, the fees in Class C shares can aggregate to exceed the cost of Class A shares over that same period. A key factor in determining which share class to choose is when the funds will be needed. FINRA offers a free 529 Education Saving Plan analyzer you can find here: <https://educationsavings.nga.finra.org/calculator/>

## Unit Investment Trusts (UITs)

A Unit Investment Trust ("UIT") is an SEC-registered investment company that offers shares or "units" in a portfolio of securities in a public offering. Unit investment trusts, or UITs, fall in the same category as mutual funds and closed-end funds. All three are investment companies, which means they pool money from many investors and invest it based on specific investment goals. The performance of a UIT's underlying investments, minus fund fees, determines the trust's investment return. Those investments are generally fixed, with a UIT generally holding the securities in which it invests for the life of the fund, which is determined at the time of the fund's initial offering. Generally, a UIT's portfolio is not actively traded and follows a "buy-and-hold" strategy. Usually, a UIT terminates on a particular date (called the maturity date), which is at a specified interval (e.g., 15 or 24 months). At maturity, the portfolio securities are liquidated and clients who purchased the UIT receive the proceeds. When these proceeds are rolled over to a new UIT, the issuers will generally waive the initial sales charge on the new UIT (often referred to as a "rollover discount"). For a new issue, the prospectus for the UIT includes fee disclosures that detail the fees and expenses of the specific product. Should you liquidate the UIT early, you will pay a fee or transaction charge. If you purchase a UIT in the secondary market, you will pay a concession or commission that will be disclosed to you at the time of the transaction. Before you invest in a UIT, it's important to have a firm grasp of a trust's specific investment strategy or goal. UITs can invest in a wide variety of securities, but most focus on stocks and bonds. The UIT will inherit all the risks associated with the securities in which it invests, such as credit and market risk. You can read more about UITs here: <https://www.finra.org/investors/insights/pooled-money-understanding-unit-investment-trusts>

## Structured Products

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

### *Structured CDs*

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

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



- Depending on their terms, Structured CDs may not pay more than the principal amount at maturity.
- **Limitations on FDIC Insurance** — Structured CDs are subject to FDIC limitations. Any accounts or deposits maintained directly with the same bank in the same right and capacity, would be aggregated with Structured CDs and other qualifying depository accounts for purposes of calculating insurance coverage limits. For more information, see: <https://www.fdic.gov/deposit-insurance/your-insured-deposits-brochure-english.pdf>
- **Lack of Liquidity**— Structured CDs are designed to be held to maturity, and you do not have the right to withdraw your funds before then. You should not purchase our Structured CDs unless you plan to hold them to maturity.
- **No Secondary Market** - The Structured CDs will not be listed on an organized securities exchange. As a result, there may be little or no secondary market to sell them.
- **Pricing Differences** - Secondary market prices will be impacted by economic and market factors. Independent pricing vendors and/or third parties may publish a price for Structured CDs, which may be reflected on customer account statements. This price may be different (higher or lower) than the price of the CDs, if any, at which the issuer may be willing to purchase Structured CDs in advance of maturity date.
- **Credit Risk** - Structured CDs are not ordinary certificates of deposit. A principal amount of Structured CDs in excess of FDIC insurance limits, will be subject to the credit risk of the issuer. Any change in the creditworthiness, credit ratings or credit spreads of the issuer, as determined by the market for taking that credit risk, is likely to adversely affect the value of the CDs.
- **No Interest Payments**. Structured CDs do not pay interest. Structured CDs may not pay periodic interest and will pay no interest at maturity unless the underlying asset(s) return is greater than zero on the valuation date.
- **Call Risk** - Some market-linked CDs have a call feature that allows the issuing institution to redeem the CD before it matures. The call price determines how much interest the investor earns, which might be less than if the CD was held longer or until its maturity date.

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

## *Principal Protected Notes*

A principal protected note, or structured note with principal protection, is a complex product that generally includes a bond and a derivative component. Usually, these products offer a full or partial return of principal at maturity. Unlike mutual funds or similar products, structured products do not reflect ownership in any underlying basket of assets but instead represent promises to pay from issuers of the products. Often these products combine a zero-coupon bond with an option or similar derivative product where the payoff ties to an underlying index or benchmark. The combination of the features is designed to return principal at a particular maturity date, either in full or in part, depending on the product structure. The investor typically participates in any return generated from the benchmark or asset, but according to the product specifications and the participation rate. For example, if the product offers a participation rate of 80 percent on the underlying benchmark, which returns 10 percent, the issuer will credit the investor's note with an 8 percent return. For this reason, the return of the notes may be significantly less in comparison to a direct investment in the underlying benchmark or asset. The principal protection feature of the product is guaranteed by the product issuer and thus is subject to the credit risk (or paying ability) of the issuer. Depending on the product, the issuer guarantee may be as much as 100 percent or as little as 10 percent, depending on the product. In most cases, the principal guarantee only applies to notes held to maturity, so early liquidation negates the guarantee.

## *Reverse Convertibles*

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

the reference asset. Some reverse convertibles have call provisions giving the issuer the ability to call the investment for redemption before its maturity. Finally, there are often complex tax situations associated with investment in these products. You should carefully discuss the product features, including the payout structure, call structure, the reference asset, and whether you will participate in any appreciation of the reference asset before you make a decision to invest. While we do not provide tax advice, we encourage you to discuss the product with your tax advisor if you have questions about its tax implications.

## *Important Considerations*

Consider these important factors regarding structured products:

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

## **Alternative Investments**

An investment in an alternative investment often involves significant risk and is appropriate only for persons having adequate financial means, and who desire a long-term investment and will not need immediate liquidity from that investment. Kovack Securities has established minimum suitability standards for initial and subsequent purchases of alternative investments. Several states have established suitability requirements that are more stringent than those established by Kovack Securities, in which case, the state standard will supersede ours.

Important general considerations involving alternative investments include:

- Alternative investments are typically illiquid. As a result, you may not be able to sell your alternative investment if you need to raise money.
- If you sell your alternative investment, you receive less money than you invested.
- You should carefully review the alternative investment prospectus, including investment objectives and suitability standards to ensure that they align with your needs, goals, and financial objectives.
- While some alternative investments may have the goal of becoming listed on an exchange, there is no guarantee. Further, should your alternative investment become listed on an exchange, then its share price will fluctuate in value for greater or less than your initial purchase.
- Past performance of any alternative investment is not a guarantee of future results.
- Your alternative investment does not guarantee a dividend, nor is it insured by the FDIC like a bank CD.
- Neither Kovack Securities nor the alternative investment company from which you are purchasing a product offers legal or tax advice pertaining to alternative investments. You are advised to consult with my own professional legal and/or tax advisor prior to purchasing.
- The alternative investment you are purchasing may offer more than one share class. If there are share class options, you should carefully review the prospectus to determine whether you are eligible for share class discounts (breakpoints) which are sometimes offered for larger purchases. Also, over time the share class you select may result in a different return than the return realized by other share classes. Share class features are not uniform and can vary from issuer to issuer. For each share class you

should understand a) the share class offering price, b) the net proceeds available for investment, c) the initial and on-going fees, d) distributions/dividends, and e) disposition/exit strategy.

## *Direct Participation Programs and Real Estate Investment Trusts (“REITS”)*

Direct participation programs permit an investor to participate in an investment and potentially derive certain tax benefits specific to that investment. A real estate investment trust is a corporation, trust or association that owns (and might also manage) income-producing real estate. REITs pool the capital of numerous investors to purchase a portfolio of properties—from office buildings and shopping centers to hotels and apartments which the typical investor might not otherwise be able to purchase individually. REITs can offer tax advantages. For instance, qualified REITs that meet Internal Revenue Service requirements can deduct distributions paid to shareholders from corporate taxable income, avoiding double taxation. The REIT must also distribute at least 90 percent of its taxable income to shareholders annually. These distributions are taxable to the extent of any ordinary income and capital gains included in the distribution.

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

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

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

## *Other Types of Alternative Investments*

Other types of alternative investments include private placements, limited partnerships, oil and gas programs, equipment leasing, managed futures, business development corporations, and Section 1031 exchanges. Each of these products has unique features and is limited to sophisticated investors who understand the risks related to the product. Alternative investments have substantial risk and are illiquid investments, meaning they cannot be sold to obtain a return of principal. As a result, they are only appropriate for a limited number of investors. Additionally, they have substantial fees, including initial and ongoing fees. We earn substantial fees on the sale of these products, so we have an incentive to sell them over other products. This creates a conflict of interest. However, we maintain procedures to mitigate these conflicts. Each alternative investment has a prospectus or offering document that details risks, costs and other conflicts you should consider before investing.

## Low-Priced Equity Securities (“Penny Stocks”)

Penny stocks are generally low-priced shares of small companies not traded on an exchange or quoted on NASDAQ. We do not make recommendations that our clients purchase, sell or hold penny stocks. Nor do we provide research or information about penny stocks. If you decide to buy or sell penny stocks, you must do it based on your own research and information. This means that we have not recommended that you purchase, hold or sell the security. Penny stocks can be very risky investments. There is often limited information available about penny stock issuers. Prices are not often available. You may be unable to sell a penny stock you purchase. Thus, you may lose your investment. If you choose to buy or sell penny stocks through a brokerage account we offer, you agree that you are doing so on your own initiative and not based on our recommendation.

## Options

Options can serve multiple purposes, including income strategies, hedging and speculating. Because options investing is complex, it is generally reserved for experienced investors. Commissions on options can be substantial and the more options you trade, the more we earn. For that reason, we have an incentive to recommend more transactions, and this creates a conflict of interest. We have procedures to mitigate these conflicts. For more detailed information about options, download and review the options disclosure document here: <https://www.theocc.com/about/publications/character-risks.jsp>

## Inverse and Leveraged Exchange Traded Products

The complex investment strategies utilized in ETNs and ETFs that are inverse and/or leveraged may result in a greater tax obligation than that of another security. You are encouraged to review the prospectus, which contains additional risks, prior to making a decision to purchase any ETF or ETN. You should carefully consider conflicts listed in the product prospectus. Only clients who are experienced with and capable of understanding the risks of investing in ETNs and ETFs (including leveraged and/or inverse versions of these securities) should invest. We do not make recommendations that our clients purchase, sell or hold ETNs or ETFs that are greater than 1x inverse and/or leveraged. Therefore, clients who choose to purchase and sell these products assume all risks of that purchase and must carefully monitor holdings in these products because we do not provide advice about how long to hold these products.

## *Exchange Traded Notes*

An **exchange-traded note** (ETN) is an unsecured debt obligation (bond) of an issuer, typically a financial institution. Unlike traditional bonds, ETNs do not pay interest payments. Rather, the issuer promises to pay the holder of the ETN an amount determined by the performance of an underlying index on the maturity date of the ETN (less certain fees). ETNs trade on exchanges at prices determined by market factors, but do not hold assets or replicate the performance of an underlying index. An ETN may offer leveraged exposure (e.g., 2X) or a promise to pay a multiple of the index it tracks. Inverse ETNs offer to pay the opposite of the performance of the indexes they track, and leveraged inverse ETNs pay a multiple of the opposite of the performance indexes tracked. Some leveraged, inverse or leveraged inverse ETNs are designed to achieve their stated performance objectives on a daily basis and “reset” their leverage or inverse exposure on a daily basis. Leveraged and inverse ETNs are short-term, speculative trading tools and are not intended for buy-and-hold investing. Due to the resetting of its leverage factor, a leveraged ETN that is designed to deliver a multiple of the performance of an underlying benchmark on a daily basis will not necessarily deliver that multiple over longer periods such as weeks, months or years. Some ETNs are callable and/or may be subject to accelerated maturity dates at the issuer’s discretion.

Due to the effects of compounding, performance of these products over longer periods of time can significantly differ from the stated multiple of performance (or inverse of performance) of the underlying benchmark during the same period of time. Leveraged, inverse or leveraged inverse ETNs can have monthly resets or even no resets. There are other risks inherent in ETN investing, including credit risk (the risk that the issuer of the ETN will be unable to fulfil its obligations / may default on the note). ETNs have liquidity risk, in that a trading market may not develop or the ETN may be delisted. Because ETNs are traded on markets, they subject investors to market risk which is generally not assumed by investors investing in traditional debt.

## *Exchange Traded Funds*

Exchange traded funds (ETFs) are similar to mutual funds in that they are registered investment companies, but different in that they are traded on an exchange. Some ETFs are not registered investment companies and invest in things such as commodities, currencies or other instruments. ETF shares typically trade throughout the day on an exchange at prices established by the market. Leveraged ETFs seek to deliver a multiple of the performance of the benchmark they track. Inverse ETFs seek to return the opposite of the performance of the benchmark they track. Leveraged ETFs seek to return a multiple (e.g., 200%) of the daily return of the fund’s

underlying index. Inverse ETFs seek to return the opposite of the daily return of the fund's underlying index. Likewise, an inverse and leveraged ETF seeks to return the inverse of a multiple of the daily return of the fund's underlying index. Leveraged and/or inverse ETFs utilize complex investment strategies which include futures contracts and options.

The investment strategies utilized by leveraged and/or inverse ETFs can result in the position being subject to increased volatility, particularly if held for multiple market sessions and can result in significant losses due to compounding. Leveraged and/or inverse ETFs are generally short-term investments that are not appropriate to hold for a long period of time. Transactions in leveraged and/or inverse ETFs can result in higher operating expenses and management fees, as there may be frequent turnover for these positions.

## Product Exchanges

Many mutual funds, UITs, variable annuities, alternative investments and variable universal life products are designed for long-term investing. However, under certain circumstances an investor may find that it is advantageous to switch from one investment product/company to another (e.g., mutual fund to a variable annuity). Surrender charges and/or sales concessions are often incurred when one of these products are switched to another product. For this reason, we have an incentive to recommend an exchange. Additionally, there can be tax consequences (gains, losses, income, etc.) of switches. Ask your financial professional for a comparison of the features, risks, and costs of any product you are exchanging for another.

## Rollovers of Retirement Accounts

Before making the decision to rollover an account from an employer sponsored plan or other retirement account, it is important to discuss with your financial professional the different options available, including any applicable fees or penalties as well as loss of any features in the old plan.

The following options may be available when it comes to your existing retirement plan:

- Maintain assets in employer's plan (if permitted)
- Rollover your plan to an account called a "Rollover IRA"
- Rollover your plan to another employer-sponsored plan (if available and permitted)
- Liquidate and take a distribution in cash

Each option has its own advantages and disadvantages, and the best alternative will vary depending on your financial needs, savings and objectives. Your financial professional can help you identify which option best fits your needs.

## *Important Considerations*

A decision to roll over plan assets to an IRA rather than keeping assets in a previous employer's plan or rolling over to a new employer's plan should reflect consideration of various factors, the importance of which will depend on an investor's individual needs and circumstances. Those factors can include (but are not limited to) the following:

- **Investment Options**—An IRA may enable an investor to select from a broader range of investment options than an employer plan. This may be less important if you are satisfied with the options available under your current plan. For example, an investor who is satisfied by the low-cost institutional funds available in some plans may not regard an IRA's broader array of investments as an important factor.
- **Fees and Expenses**—Retirement plans and IRAs usually involve (i) investment-related expenses and (ii) plan or account fees. Investment-related expenses may include sales loads, commissions, the expenses of any mutual funds in which assets are invested and investment advisory fees. Plan fees typically include plan administrative fees (e.g., recordkeeping, compliance, trustee fees) and fees for services such as access to a customer service representative. In some cases, employers pay for some or all of the plan's administrative expenses. An IRA's account fees may include, for example, administrative, account set-up and custodial fees.
- **Services**—Different levels of service exist under each option. Some plans, for example, provide access to investment advice, planning tools, telephone help lines, educational materials and workshops. Similarly, IRA providers offer different levels of service, which may include full brokerage service, investment advice, distribution planning and access to securities execution online.
- **Penalty-Free Withdrawals**—If an employee leaves their job between age 55 and 59 ½, they may be able to take penalty-free withdrawals from a plan. In contrast, penalty-free withdrawals generally may not be made from an IRA until age 59 ½. It also may be easier to borrow from an employer-sponsored plan.



- **Protection from Creditors and Legal Judgments**—Generally speaking, plan assets have unlimited protection from creditors under federal law, while IRA assets are protected in bankruptcy proceedings only. State laws vary in the protection of IRA assets in lawsuits.
- **Required Minimum Distributions**—Once an individual reaches age 70½, the rules for both plans and IRAs require the periodic withdrawal of certain minimum amounts, known as the required minimum distribution. If a person is still working at age 70½, however, they are generally not required to make required minimum distributions from their current employer's plan. This may be advantageous for those who plan to work into their 70s.
- **Employer Stock**—An investor who holds significantly appreciated employer stock in a plan should consider the negative tax consequences of rolling the stock to an IRA. If employer stock is transferred in-kind to an IRA, stock appreciation will be taxed as ordinary income upon distribution. The tax advantages of retaining employer stock in a non-qualified account should be balanced with the possibility that the investor may be excessively concentrated in employer stock. It can be risky to have too much employer stock in one's retirement account; for some investors, it may be advisable to liquidate the holdings and roll over the value to an IRA, even if it means losing long-term capital gains treatment on the stock's appreciation.

The features of each employer plan differ, so there may be other factors not listed above to be considered.

## Exploring Options

### *Option 1: Maintaining Assets in former employer's plan*

Possible Advantages	Possible Disadvantages
<ul style="list-style-type: none"> <li>• Maintains tax-deferred status</li> <li>• Keeps current investment choices</li> <li>• Preserves any guaranteed interest rate</li> <li>• Keeps ownership of company stock in the account where it may have certain tax benefits at withdrawal</li> <li>• Fees and costs in an employer plan may be lower than similar individual accounts</li> <li>• A Plan fiduciary is required to prudently monitor the cost and quality of the investment options</li> <li>• IRS penalty-free withdrawals if you are at least 55 years old in the year you left your job</li> <li>• Protected from creditors and bankruptcy</li> <li>• Plan may provide access to educational resources, planning tools, and phone helpline</li> <li>• Employer may allow participant to continue to pay outstanding loans on plan after leaving the company</li> </ul>	<ul style="list-style-type: none"> <li>• Changes made to the plan by your former employer will affect you</li> <li>• Investment choices limited to those offered through your former employer's retirement plan</li> <li>• Subjects you to limitations of the plan, including income distribution provisions when you retire</li> <li>• Account may be assessed fees for plan administration or other reasons</li> <li>• Access to personalized investment advice or advice that takes into account your other assets or particular needs may not be available</li> <li>• New contributions are not allowed</li> <li>• Loans on plan assets may be limited or restricted</li> </ul>

### *Option 2: Rollover your Plan to an IRA*

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Maintains tax-deferred status of savings</li> <li>• Allows new contributions, subject to contribution limitations</li> <li>• Allows the combination of all retirement plan accounts into a single IRA</li> <li>• Offers greater control as the client makes the decisions</li> <li>• Offers broad range of investment options to fit needs as they change over time</li> <li>• Protected from bankruptcy</li> <li>• Combine other qualified plans or IRA savings into one account</li> <li>• Your financial professional will help with investing and retirement planning</li> <li>• Flexibility when setting up periodic or unscheduled withdrawals</li> <li>• May help with planning and managing required minimum distributions at age 70½</li> </ul>	<ul style="list-style-type: none"> <li>• Investment expenses and account fees may be higher than those of employer plans</li> <li>• IRS penalty-free withdrawals generally not allowed until age 59 ½</li> <li>• Loans are not allowed. Money can only be accessed by taking a taxable distribution</li> <li>• Limited protection from creditors</li> <li>• In-kind transfers of company stock to an IRA may result in appreciated value being taxed as ordinary income at withdrawal from the IRA It's important to know the types and range of investments and fees of an IRA</li> <li>• You may lose guaranteed interest rates, death benefits</li> </ul>

***Option 3: Rollover your plan to another employer sponsored plan (if joining a company that offers one)***

<b>Advantages</b>	<b>Disadvantages</b>
<ul style="list-style-type: none"> <li>• Maintains tax-deferred status of savings</li> <li>• Continue to make contributions and save for retirement</li> <li>• Fees in employer plan may be lower than similar individual accounts</li> <li>• Plan fiduciary required to prudently monitor the cost and quality of the investment options</li> <li>• IRS penalty-free withdrawals if you're at least 55 years old in the year you leave your new job</li> <li>• Protected from creditors and bankruptcy</li> <li>• Plan may provide access to planning tools, educational resources and phone helpline</li> <li>• Loan provisions may allow borrowing from the rolled over money</li> <li>• No required minimum distribution at age 70½ from a current employer's plan is required, unless you are a 5% or more owner of the company</li> </ul>	<ul style="list-style-type: none"> <li>• Changes made to the plan by your employer will impact you (i.e., plan investments, fees, services, plan providers, plan termination)</li> <li>• Investment choices limited to those the plan offers</li> <li>• Subjects you to limitations of the plan, including income distribution provisions when you retire</li> <li>• Account may be assessed fees for plan administration or other reasons</li> <li>• Access to personalized investment advice or advice that takes into account your other assets or particular needs may not be available through the retirement plan</li> <li>• Plan may offer fewer or more expensive investment options</li> <li>• May be more restrictive on withdrawals while employed</li> <li>• May not allow rollover from previous plan or impose limitations</li> <li>• In-kind transfers of company stock may result in appreciated value being taxed as ordinary income at withdrawal from the retirement plan</li> </ul>

***Option 4: Liquidate and take a distribution in cash***

<b>Advantages</b>	<b>Disadvantages</b>
<ul style="list-style-type: none"> <li>• Immediate access to cash</li> <li>• May see significant tax advantage for company stock that has substantially appreciated</li> <li>• If after-tax contributions were made, could take these amounts tax-free (you will be required to pay tax on the earnings of these contributions)</li> </ul>	<ul style="list-style-type: none"> <li>• At distribution, 20% withheld on the taxable account balance for pre-payment of federal income taxes</li> <li>• If You are under 59 ½ the withdrawal will be subject to a mandatory tax withholding as well as applicable penalties</li> <li>• State taxes and a 10% early distribution penalty may also apply on taxable account balance</li> <li>• May move you to a higher tax bracket</li> <li>• No future tax-deferred growth potential</li> <li>• Not protected from creditors or bankruptcy</li> </ul>

Check with your former employer's plan administrator to confirm plan details and requirements. These descriptions are for general educational purposes and should not be construed as advice or recommendations. This is not tax or legal advice, and we encourage you to consult with your tax or legal advisors on these issues.

We receive compensation as a result of your decision to roll over your assets into an IRA account with us. We have a conflict of interest because we have a financial incentive to recommend that your retirement plan assets be rolled into an IRA with us. However, we have procedures to mitigate this conflict.

## **Conflicts of Interest**

A conflict of interest is a factor that has the potential to influence our decision when we make recommendations to you involving your brokerage account(s) with us. We are required to act in your best interest without putting the interest of our firm or our financial professionals over yours. Conflicts we have are primarily financial incentives that relate to the manner in which we earn compensation and/or financial incentives we have related to our product and service providers. As outlined above, we offer a wide range of products and services. Some of these have greater potential for conflicts than others. Our compensation varies depending on the type of products

and services you select. For this reason, we have outlined in various parts of this document and in our Customer Relationship Summary (Form CRS) what those conflicts are. We have also developed procedures to mitigate conflicts of interest where possible.

Our conflicts fall into several categories. We summarize those conflicts below. However, you should also read the information above and consider the conflicts listed in a specific product's prospectus or offering document as well.

### *Third-Party Compensation*

We receive payments from third parties, primarily our clearing brokers and our product sponsors. This compensation falls into several categories.

#### Product Sponsors

We receive revenue sharing from product sponsors. Revenue sharing is payment from a product sponsor to sell their products. There are several types of revenue sharing payments we can receive. Specifically, we receive payments to offset the costs of our conferences and events where we provide training and other information about their products to our financial professionals. We also receive payments based on our total sales of a sponsor's product or total client assets held with a product sponsor. We post information on our website at <https://kovackfinancial.com/disclosures/> about the nature and amount of these sponsor payments. We also receive compensation from product sponsors based on total deposits our clients hold with them (including sweep accounts like money market mutual funds), assets, and profitability and persistency of the business sold by our financial professionals.

We receive continuing commissions (also referred to as "trail" commissions) from product sponsors. This trail compensation is disclosed in the prospectus or offering document and for mutual funds is typically referred to as a "12b-1" fee. Trail commissions are shared with our financial professionals. These fees are paid by the product sponsors from the assets of the investment, typically as an annual percentage of the amount invested. We have a financial incentive to recommend products to you that pay us higher ongoing "trail" commissions.

Our financial professionals may also receive marketing reimbursements from product sponsors for expenses related to marketing their products like educational meetings and marketing tools. These payments are made only to our firm and must be approved by supervisory personnel before being paid to representatives. Additionally, the payments may not be conditioned on selling products offered by the particular sponsor offering the marketing support.

Our product sponsors sometimes provide non-cash compensation to our financial professionals in the form of educational events, seminars, and promotional items including meals and entertainment.

#### Cash Sweep Programs

We receive substantial economic benefits from the clearing brokers we recommend. These benefits are in addition to other fees you pay, and include payments, credits, products, and services that we would not receive without sending client assets to them.

If you have an account held with one of our clearing firms, uninvested cash in the account is automatically moved or swept into money market funds or federally insured bank accounts. We receive substantial payments from our clearing brokers based on the amount of funds you hold in these sweep programs. When rates are very low, the revenue we earn from these accounts can be higher than the interest you are paid on the balances. These arrangements create an incentive for us to recommend that you maintain cash balances in your account.

You may choose not to use these sweep programs and instead purchase shares in money market funds you select. For example, you may purchase shares in money market mutual funds outside of your core account. Keep in mind that such investments may be subject to customary commissions or fees, that additional cash balances in your brokerage account will not be automatically swept into these money market mutual funds, and that you could lose money by investing in a money market mutual fund. Although a money market fund seeks to preserve the value of your investment at \$1.00 per share, it cannot guarantee it will do so. An investment in a money market mutual fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. However, you can invest in money market funds that purchase underlying investments such as U.S. Treasury securities.

If you have accounts with us held through National Financial Services LLC ("NFS"), we only offer one sweep option called the Bank Deposit Sweep Program ("BDSP"). Your balances are swept through the BDSP service into interest-bearing deposit accounts at one or more banks which we call Program Banks. You will have the option to purchase money market mutual funds and other investment options that we make available to you outside of the BDSP program. You can find more information about the BDSP program in the

Bank Deposit Sweep Program (BDSP) Disclosure Document that you can find here: <https://kovackfinancial.com/disclosures/>. A list of BDSP Program Banks can be also be found at that link as well as at [www.mybrokerageinfo.com/banklist/](http://www.mybrokerageinfo.com/banklist/). The Program Bank List is subject to change. Generally, you will receive notification in advance of any change to the program.

The BDSP Program creates financial benefits for us and/or our affiliates, NFS and certain 3rd party Program service providers. Financial benefits include the payment of compensation to us, NFS and 3rd party BDSP Program service providers that results from your use of the BDSP Program. These financial benefits incentivize us to make the BDSP Program the default and only cash sweep available for your Program-eligible Brokerage/Advisory accounts rather than a different cash sweep that does not entail such financial benefits to us or entails lesser financial benefits to us, resulting in a conflict of interest for us. Cash balances in your account help support fees to us, NFS, and third-party BDSP Program service providers. Therefore, we have a conflict of interest and incentive to enroll persons in the BDSP Program and recommend you maintain cash in your account, which will be included in the BDSP Program and increase compensation to us. We address this conflict by disclosing it to you, not sharing any compensation we receive from the BDSP Program with your financial professional, and making other non-sweep investment options available to you, such as money market funds.

We and/or our affiliates, and NFS and certain 3rd party BDSP Program services providers are paid a fee for administering the BDSP Program (collectively, the "Program Fee"). The Program Fee is calculated by multiplying the cash deposits held at a Program Bank by the overall bank rate for that Program Bank and then subtracting total interest paid to you (based on the interest rate) on cash deposits held in the Program. This calculation creates an incentive to pay a lower interest rate in order to maximize the Program Fee. Since we set the interest rate in connection with the BDSP Program, this discretion creates a conflict between our interests and your interests because our determination of our share of the interest paid by the Program Banks that we retain as compensation directly affects and reduces the interest you earn on your cash deposits held in the BDSP Program. The total Program Fees that we, and/or our affiliates, and NFS (and any 3<sup>rd</sup> party Program service providers) may earn will be a maximum of the Federal Funds Target Rate (as can be found online at <https://fred.stlouisfed.org/series/DFEDTARU>) plus 0.25%, as determined by the total deposit balances at all of the Program Banks over a 12-month rolling period. Both we and NFS may receive more revenue with respect to amounts in the BDSP Program than with respect to other sweep products. For more specific details and definitions please see the BDSP Disclosure Document Summary at <https://kovackfinancial.com/disclosures/>.

The BDSP Program should not be viewed as a long-term investment option. If you desire, as part of an investment strategy or otherwise, to maintain a cash position in your account for other than a short period of time and/or are seeking the highest yields currently available in the market for your cash balances, contact your financial professional to discuss investment options that may be available outside of the BDSP Program and that may be better suited to your goals. You should compare the terms, interest rates, required minimum amounts, and other features of the BDSP Program with other accounts and alternative investments.

For a full description of the BDSP Program, including access to funds, maximum deposits, interest rates (including how they are determined), program limits, details of SIPC and FDIC coverage, future changes, and more, please carefully review the BDSP Disclosure Document. The document also provides additional information on our compensation and related conflicts of interest. The BDSP Disclosure Document can be found here: <https://kovackfinancial.com/disclosures/>.

### *Affiliate/Other Compensation*

KSI acts as the introducing broker-dealer for some transactions its financial professionals effect as the portfolio manager in advisory accounts. We have a conflict of interest in recommending KSI and its clearing brokers because we receive economic benefits from our clearing brokers such as a share of the interest on money market (including insured deposit) or margin account balances, which are based on the number and size of the accounts and balances carried with our clearing brokers. Receipt of economic benefits by us, our management personnel, or our financial professionals creates a conflict of interest that can impair our objectivity when recommending KSI or its clearing brokers.

We may buy and sell your investment through our own accounts and we can earn a profit on the transaction (principal transactions). This creates a conflict in that our interests are opposed. However, we do not hold our own positions, except to buy or sell from the marketplace to fill your order, called riskless principal trading. Your financial professional will also receive compensation when we trade on a principal basis. We will send you a transaction confirmation which includes important disclosures, including our compensation.

## *Financial Professional Compensation*

Our financial professionals are compensated through the commissions and advisory fees they earn. This means they earn a percentage of the fees generated from the products they sell and the assets they manage. The more products they sell, the more assets they manage, and the more business they transact, the more they earn. Further, some are compensated on a grid which provides thresholds allowing them to retain a greater percentage of compensation when they meet overall sales thresholds. As a result, our investment advisor representatives have a financial incentive to encourage you to place more assets in their account. Similarly, our brokers have a financial incentive to encourage you to engage in more transactions. Because of the nature of our business, our financial professionals earn a high percentage of the fees they generate, rather than a salary or bonus. For this reason, our financial professionals have a financial incentive to recommend more products and products with higher payouts. However, we maintain procedures to mitigate this conflict.

Some of our financial professionals receive financial assistance when they transition to our firm from another firm. This may involve payment of fees, reduction of fees, forgivable loans, and/or other forms of compensation. For this reason, our financial professionals have a conflict of interest in that we have provided incentives for them to transition to our firm and sell our products to you, which may include recommendations to sell products you had before you moved your account to our firm.

Financial professionals may have outside business activities whereby they can earn additional compensation. They may also maintain personal securities accounts whereby they transact for their own account. These activities can impact the recommendations you receive from the financial professionals and/or adversely impact orders you place. These activities can create a conflict with your interests. However, we maintain procedures to mitigate these conflicts.

## *Bank Networking Agreements*

Some of our financial professionals offer brokerage and/or advisory services on the premises of unaffiliated banks and credit unions. These arrangements are typically called networking agreements. If you were referred to our financial professional by your bank or credit union, and we have engaged in a networking agreement with that financial institution, we share a portion of the revenue we earn with them. This includes revenue we earn on commissions (including trail, or ongoing, commissions) and fees generated from your accounts and investments with us. This means that only a portion of the commissions and other fees earned from your investments with us will be retained by us and paid to your financial professional. This arrangement creates an incentive for your bank or credit union to refer you to us since they receive a percentage of the commissions and fees we earn on your account. You are not required to have your account with us and may choose any broker-dealer.

Banks and credit unions that enter into these agreements with us may limit the types of products the financial professionals may offer you. If this is the case, this is a material limitation on the products your financial professional may offer you. Ask your financial professional if there are any limits on the products he or she may offer you.

## **Fiduciary Acknowledgement (for Qualified Accounts)**

When we provide investment advice to you regarding your retirement plan account or individual retirement account, we are fiduciaries within the meaning of Title I of the Employee Retirement Income Security Act and the Internal Revenue Code, as applicable, which are laws governing retirement accounts. The way we make money creates conflicts with your interests, so we operate under a special rule that requires us to act in your best interest and not put our interests ahead of yours.

Under this special rule's provisions, we must:

- Meet a professional standard of care when making investment recommendations (give prudent advice);
- Never put our financial interests ahead of yours when making recommendations (give loyal advice);
- Avoid misleading statements about conflicts of interest, fees and investments;
- Follow policies and procedures designed to ensure that we provide advice that is in your best interest;
- Charge no more than is reasonable for our services; and
- Give you basic information about conflicts of interest.