

# RAYMOND JAMES®

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By U.S. Mail and Email: e-ORI@dol.gov

Office of Regulations and Interpretations  
Employee Benefits Security Administration  
Attn: Conflict of Interest Rule  
Room N-5655  
U.S. Department of Labor  
200 Constitution Avenue, N.W.  
Washington, D.C. 20210

Ladies and Gentlemen:

We appreciate the tremendous amount of work the Department of Labor put into this proposal, and we share the DOL's passion for helping our clients achieve their retirement goals. Our firm was founded on the principle of putting clients' interests first. As such, Raymond James has been a longstanding advocate for a uniform fiduciary standard. We believe the most appropriate solution is a single standard, irrespective of the type of account, which will provide consistency and clarity for consumers and the industry.

Every client deserves to receive financial advice based on his or her individual unique needs, goals and financial well-being without regard to how advisors are compensated for these services. We agree with the DOL that this advice should not be influenced by the form or size of payment for services provided. Disclosing information on fees, commissions and financial recommendations so that clients understand the reasoning behind them is critical. Raymond James was the first financial services company to provide clients with a client bill of rights. The document is titled "Your Rights and Responsibilities as a Raymond James Client" and is provided to clients at account opening and available anytime on RaymondJames.com. A significant part of this document is dedicated to the expectations clients should have related to the advice they receive and how they pay for it. In short, Raymond James has always prided itself on putting our clients' interests first including explaining fees and investment risk to our clients in a variety of ways and in plain English.

It is clear that the DOL recognizes the importance of allowing clients to continue to choose between various fee and commission structures to pay for the services they receive from financial professionals. A one size fits all pricing structure rarely, if ever, works in any industry; certainly the financial services industry is no different. No client should be forced into one predetermined solution. While we appreciate the DOL's attempt to allow for this choice by creating the Best Interest Contract Exemption as a part of the Fiduciary / Conflict of Interest rulemaking process, it is our opinion that the exemption as currently proposed is unworkable.

As a practical matter, the BIC's heavy cost of compliance, along with the significant increase in potential liability as further expanded below, will effectively force advisors and their firms to choose the fee-based model, thereby eliminating the choice the DOL is attempting to preserve. Clients will be forced into a one size fits all pricing model that was the subject of meaningful criticism when this rule was first proposed in 2010.

In an attempt to make this response as concise and helpful as possible, the rest of this document will focus on the specific reasons we believe the BIC, as proposed, is unworkable, as well as suggestions on how it could be modified to meet what we believe are the goals of the DOL while still minimizing the industry's cost of compliance and exposure to frivolous and costly litigation.

## Why the BIC is Unworkable

1. Requiring the advisor to enter into a written contract with the client makes both the advisor and broker-dealer potentially liable for breach of contract, thereby exposing both parties to potentially needless and expensive litigation.

It should come as no surprise to anyone that clients don't like losing money. Unfortunately, the nature of financial markets is that there will be times where the value of a portfolio will fall. During particularly tough times – something that has occurred twice this century – those losses can be significant. It is not uncommon for clients to resort to lawsuits in an attempt to recover some, if not all of their losses. Under today's standards, the first option explored by plaintiffs' attorneys is almost always a lack of suitability of investments recommended by the client's financial advisor. With the benefit of hindsight, it is often argued that the advisor should have known the particular product(s) selected was not suitable. Fortunately, a well-documented and reasoned recommendation can often be defended before a FINRA arbitration panel (a substantially more cost-effective solution for resolving customer complaints). In addition, while the BIC does allow the contract to require that individual disputes be arbitrated, it also requires that clients be given the right to file class action suits. The numerous and onerous warranties included in the BIC, some of which may be impossible to meet, will undoubtedly result in a dramatic escalation in class action suits against financial services firms.

Based on previous comments, we understand the DOL believes the level of legal liability would be no greater under the new rule than the existing fiduciary standard. We respectfully disagree. While individual participants in a 401(k) plan have legal recourse against any breach of fiduciary duty, such recourse is generally limited to costly and involved litigation on behalf of the plan. Legal action becomes much easier and more likely when an individual can take action solely on his or her behalf, as would be the case if an individual advisor were required to execute a contract with each client. We therefore believe that the adoption of this rule would inevitably lead to a significant increase in litigation – particularly after lengthy market declines.

In addition, the DOL's proposed requirement that current IRA clients must have the ability to bring class action suits will potentially create perverse incentives for plaintiff's attorneys.



A foreseeable consequence would be the use of class action suits to extract large settlements (including punitive damages) that would create further disincentives within the financial services industry.

A suitability standard acknowledges that there can be a multitude of possible product solutions for a particular financial need. However, one could interpret a “best interest” standard as meaning that the product recommendation itself has to be the best solution. Given the uncertainty of financial markets, the odds of an alternative product outperforming the selected product are quite high. This makes plaintiffs’ attorneys cases significantly easier. Should a product recommendation underperform, we believe that current BIC opens the door for plaintiffs’ attorneys to claim that any product that performed better was in the client’s best interest and that the product he or she was sold was not. Our potential legal exposure will increase exponentially if the recommended product costs more than a possible alternative.

The increased cost of litigation has the potential to not only hurt larger firms, but also to bankrupt small broker-dealers. While the popular press tends to focus on large Wall Street firms, small broker-dealers serve clients across the United States in small rural towns as well as in large cities. Access to the low cost services offered by broker-dealers is so important to this country that Congress reiterated its commitment to the continuation of broker-dealers under Section 913 of the Dodd-Frank Act. That commitment will be undermined if advisors forgo the BIC exemption for a fee-based account structure.

2. The required compensation disclosures are unnecessarily onerous.

Raymond James is a long-standing advocate for providing complete and detailed disclosure on the cost associated with investing. However, as we interpret the current proposal, we would need to disclose the direct and indirect compensation not only for product(s) recommended, but for any products that could be offered to the client as an alternative. Further, it is our interpretation that this information would at minimum need to be presented on a public webpage.

We assume the goal here is to allow clients to compare compensation on products being offered to comparable products that are not. However, given the number of options, the amount of information would be so extensive it would likely only increase confusion. For example, we offer almost 400 different growth mutual funds. It appears from the rule that, for comparison purposes, we would need to provide cost information on each of these funds. In addition, since many other forms of mutual funds could be viewed as an acceptable alternative – especially index funds – we assume we would need to include cost estimates on some, if not all of those as well. Given that our platform carries a total of approximately 6,000 mutual funds, it’s easy to see how massive this disclosure could be. Sheer volume of the information provided would likely cause the client to discount it in the same manner many currently disregard annual prospectus and privacy mailings. We must also wonder whether this information allows plaintiffs’ attorneys to second-guess recommendations down the road, further adding to the potential liability. It will be difficult for the most well-intentioned firms to meet the disclosure requirements which may result in class action lawsuits on non-material issues. In the end, most firms will choose the fee-based account option for IRAs, rather than relying upon the BIC.



3. The required cost estimates, as currently proposed, would be impossible to deliver given the industry's current data infrastructure and capabilities.

As mentioned in the second observation, Raymond James supports disclosure of cost and other pertinent information about products. However, we believe that no broker-dealer could currently comply with the extensive BIC required cost disclosures and product comparisons. In addition, we believe that the cost to build the infrastructure to comply, as well as the industry cooperation required, would require years of technology development and mandated cooperation within the entire industry. While the industry shares a tremendous amount of electronic product data, the means to aggregate and report the data as required by the current proposal does not currently exist. For example, we currently get product data on variable annuities via DTCC's product profile. This product profile provides all of the data points we need in order to send orders electronically to the insurance company, including all necessary product and sub-account costs. However, while cost information is important in the sales process, it is not operationally important once the sale is complete and the order is placed. Therefore, this cost data, while available, is not currently readily available in the way it would be necessary to meet the requirements of the DOL proposal.

At the time of the sale, we would need to give each client a chart showing the total cost of acquired assets over a period of one, five and ten years. While every purchaser of variable annuity X would incur the same basic product cost, the total cost will vary from client to client depending upon the riders and sub-accounts selected for that particular client. In addition, since the client could allocate money to any sub-account at any time, we would assume that we would also need the costs of each sub-account that was not selected at the time of purchase. Given that it not uncommon for a single variable annuity to have over 100 different sub-accounts, one can readily see how extensive the disclosures will become. Finally, since the current product profile concerns itself only with the current version of the product (since it's the only version that can be purchased), we would need to continually capture and receive daily product profiles for products our clients currently own, but are no longer available for purchase. Certainly, this is technologically possible, but it will likely take years to build the infrastructure – assuming the industry can create the necessary standards and is willing to incur the cost to do so. Even if Raymond James undertakes such a project, there are no guarantees that every variable annuity company would be willing to participate. Consider that we have billions of dollars of variable annuity assets with Hartford, John Hancock and Voya. All three of these companies are no longer in the variable annuity business. Will they be willing to invest capital to provide us the information we need to comply with this requirement? Is there any mechanism to obligate a company to do so?

To provide a second example, complying with compensation disclosures for mutual fund products will also be difficult at best. While most, but not all, mutual fund companies generally use DTCC's product profile, not all of the information that the BIC would require is included in product profile. For illustrative purposes, let's consider only Fund Operating expenses. While mutual funds can change their management fees or distribution and service (12b-1) fees only upon board approval, the "other expenses" (legal fees, administrative fees, etc.) change frequently. Additionally, many mutual funds have established omnibus arrangements with broker/dealers, which require the broker/dealers to maintain accounting support for individual shareholder accounts.



The mutual fund companies provide reimbursement to broker/dealers to compensate them for this operational support. While these fees generally concentrate around an industry standard flat dollar per position rate, some take the form of a percentage of underlying assets. A mutual fund company might elect to pay the latter because it is the more cost effective option which allows them to minimize the shareholder servicing expenses and sub accounting costs. These operational support payments are negotiated between the mutual fund company and the broker/dealer offering the funds and may not be consistent across all relationships. To that end, they are not included in DTCC's product profile and any cost estimates and updates required by the BIC would be completely manual. Moreover, these operational support payments may change over time – such as moving from a flat per position fee to a percentage on assets arrangement – and would require updates to the disclosures each time they change.

Finally, forcing broker-dealers to project performance on individual assets, at a minimum will cause confusion in the industry if different firms choose different models that will result in different cost projections. Challenges also abound in creating the technology that will allow advisors to do this. The issue is further complicated by the fact that FINRA imposes strict limitations on our ability to provide any projected future performance figures.

As a consequence, most firms will not accept the risks described above and will only allow fee-based IRAs.

#### 4. What is a “reasonable” level of compensation?

While we appreciate the flexibility to define “reasonable” levels of commissions under the BIC, without any guidance on this issue, our potential liability is increased even further. One would have to assume that any plaintiff's counsel will most certainly argue that our “reasonable” commission wasn't reasonable at all. This will be particularly true if any other financial institution determines that their definition of “reasonable” on a particular product is different than ours. And of course, if any product other than the one recommended performs better and has a lower level of commission, our defense of the recommended product after the fact becomes even more difficult. The most logical result of this aspect of the rule would be that commissions would be standardized not only across all firms, but across product lines as well. Would firms be allowed under current federal law to discuss what they believe defines “reasonable” compensation to avoid violating the BIC? In all likelihood, commissions would end up being not much different than the fees charged within fee-based accounts (i.e., a 1% upfront commission with a 1% annual trail). In the end the client will essentially pay the same fee whether the advisor elects to use a fee-based account structure or a commission account under the BIC.

It is our opinion that the pricing structure described above will only cause some clients to pay more than they would otherwise pay. Of course, in reality firms will only provide services in fee based accounts. If an advisor is facing the same basic compensation schedule whether he or she services an account in a fee-based relationship or falls under the BIC, no advisor would elect to accept the BIC's additional liability.

## How to Make the BIC Workable:

### 1. Eliminate Contract Requirement and Enhance Disclosure

The DOL is on record comparing investment advice to that offered by a doctor or lawyer. As the argument goes, if your doctor or lawyer must put your best interests first, why shouldn't your financial advisor? We cannot argue with this logic. However, we will point out that doctors and lawyers manage to operate under this standard without the need for a contractual relationship with each patient or client. They both have a standard they must meet and there are potential consequences if they do not meet the standard. These professions and many others have managed to operate under such a standard without adding the liability of an individual binding contract.

We believe that the SEC, the primary regulator for the securities industry, should define a best interest standard across all account types that preserve investors' choice. Congress agreed with this tenet in Dodd-Frank section 913. Keeping in mind that the ultimate goal is to put the client's interests first and fully disclose all relevant information, including any and all forms of conflicts, to assist the client in making the right choice, we believe that the following should be a major part of this definition:

1. Full disclosure of the terms of the product and why it is being recommended at the time the recommendation is made.
2. Disclosure of material product costs at the time of recommendation.
3. Full disclosure of material forms of compensation received by the financial institution and the advisor, along with information regarding how this compensation will impact returns at the time of the recommendation.
4. Regular updates (at least annually) on the performance of the individual product, without specific details on all of the costs of each product. At the end of the day, clients are most concerned with performance returns. As long as we are reporting on returns net of fees, we will be providing our clients with the information they want most.

We can deliver on the above points without an excessive and costly administrative burden. Reducing the compensation and cost disclosures in the manner we recommend will not only greatly moderate operational compliance aspects of the rule, but we also believe it will be easier for clients to digest.

In summary, we believe the BIC, or more preferably a universal best interest standard, could be made workable by:

1. Removing the requirement to enter into an actual contract
2. Requiring compensation disclosures only for recommended products
3. Replacing the one, five and 10 year performance/cost estimates with clear and complete disclosure of current and expected costs and fees



## 2. Drop Wholesale Product Exclusions and Use Existing Regulation to Govern Use of Products

We believe that it is important to carefully consider prohibitions on purchasing products in an entire class of accounts. FINRA recognizes this fact in its reasonable basis and customer specific suitability requirements, but it appears as though the current DOL proposal excludes several products from purchase in any IRA. Some of these products work particularly well within the tax-deferred structure of an IRA. These include, but are not limited to:

### 1. Options used for hedging purposes

While we agree that speculative purchases of options are generally not appropriate for IRAs, options bought and sold for hedging purposes work particularly well in IRAs. Covered call options can be used to both generate additional income from a stock position as well as partially hedge the position in the event the stock price declines. In addition, the income generated by the strategy would be sheltered within the IRA. Similarly, purchasing put options to protect an equity position is a common strategy both within and outside of IRAs. While concentrating an IRA in a particular stock is generally not a recommended approach, the fact of the matter is that it is not uncommon for clients to find themselves in this situation – particularly if the stock is in the company that currently employs or formerly employed them. Often clients consider this concentrated position as being the primary driver behind their financial success and are therefore often reluctant to part with the position. For such individuals, using options to hedge these portfolios can be the best way to reduce the risk on a position they refuse to liquidate.

### 2. Market Linked CDs

In this persistently low interest rate environment, yield starved savers are looking for better ways to get additional return without putting their principal at risk. For those that are willing to give up the known return on conventional CDs in exchange for an unknown (but not negative) return linked to an equity index, market linked CDs have been an attractive alternative. The FDIC insurance on principal that comes with these instruments provides additional comfort to the purchaser. Purchased outside of an IRA, market linked CDs generate phantom income (OID) each year until maturity. For this reason, when an advisor has the flexibility to do so, many choose to allocate these products to the client's IRA rather than a non-qualified account.

### 3. Structured Notes

Creating the proper asset allocation is much more difficult when interest rates are historically low and equity markets are at all-time highs. It is not uncommon for strong equity returns combined with low fixed income returns to shift a typical 60/40 portfolio to a 70/30 mix or even higher. The standard solution would be to reallocate money from equities to bonds, but concerns about interest rate risk cause clients to fear that such a reallocation might actually increase the overall risk of the portfolio. Structured notes that provide returns tied to an equity index while providing a known amount of downside protection against declining markets have become an increasingly attractive risk reduction strategy.

Prohibiting the use of structured notes will either force an increasing number of clients into traditional bonds during a time when interest rates are poised to rise or incent them to continue to overweight traditional equities.

#### 4. Fund of Funds Hedge Funds and Long/Short Hedge Funds

As the investment world has become more global, traditional asset classes have become more correlated than ever. As a consequence, most financial experts believe a client can achieve true diversification only by adding alternative, uncorrelated assets to a portfolio. Fund of Funds Hedge Funds are an excellent way to add many asset classes in one individual product, thereby reducing the overall volatility of the portfolio. And since much of the annual income generated by these types of products is considered ordinary income for tax purposes, an IRA can be the most tax efficient way to hold these investments. Long/Short Hedge Funds are another means of providing a partially uncorrelated asset as a means of reducing portfolio volatility. One of the downsides of these funds is that the high portfolio turnover can create frequent capital gains. As such, clients are often best served by purchasing this product in an IRA rather than a non-qualified account. Note that the SEC and FINRA currently hold firms to strict due diligence requirements on these types of funds.

While the above products are certainly not for every client, excluding them from IRAs for all clients would negatively impact the planning process for a meaningful number of clients. In our opinion, excluding these products simply because they are more complex and/or less commonly used is not the proper solution. Providing the same level of disclosures about risks, fees and compensation as discussed previously serves just as well for these products as others. In the rare cases that advisors recommend products that are not appropriate for an investor, there are already several regulations and enforcement mechanisms to correct that behavior.

### 3. Provide Guidance on the Definition of “Reasonable” Compensation

The BIC, as currently proposed, allows for advisors that choose to work under the BIC to receive commissions that are “reasonable.” No attempt is made to define “reasonable.” One size fits all rules never work, so we are not looking for a rigid structure. However, it would be helpful to at least have some indication regarding what the DOL views “unreasonable.”

As an example, it is not uncommon for annuities to offer multiple commission options. One such option might be 7% upfront with no annual commission thereafter. Another such option might be 1% upfront with a 1% annual trail based on assets. At first glance, one might deem the lower upfront commission with the annual trail to be more “reasonable.” However, actuarially, given the expected length of time the annuity is likely to be held (about 10 years), the compensation levels are the same. Absent any guidance from the DOL, it would be likely that the optics of the higher upfront commission would lead the industry to conclude that there is too much risk to offer a product with a “high” upfront commission, regardless of the fact that it is not likely to cost the client any more in the long run.



We would expect therefore that upfront commissions will become compressed and more of the commission will be paid in the form of a trail. Financial institutions would not elect to offer one commission structure for products sold in IRAs and another commission structure if that same product is sold outside of an IRA, therefore the net effect of this would likely be a restructuring of all commissions on all products in all accounts. Those that would argue for more level compensation might say this is a good thing. In our view, since the compensation would ultimately be the same either way, it's neither good nor bad. It would however be quite expensive to re-price every packaged product that is currently sold with commissions.

Mutual funds would likely be similarly affected. For buy and hold clients, an A-share mutual fund where the commission is paid up front, is often the cheapest solution. Despite this, it would be likely that the industry would move to fewer share classes with minimal compensation differences in order to minimize the likelihood that the recommended share class would carry a compensation structure that could be considered "unreasonable."

In short, without some guidance on what is "reasonable," the industry will likely move to a one size fits all commission schedule for all products. While this might reduce possible conflicts of interest, the reduction in choice will also mean that some clients will inevitably pay more.

### **The Danger of Creating Regulations that Eliminate Client Choice**

We know that one of the objectives of the DOL is to make sure that small investors are able to get help with their investment decisions. We share this goal. Some financial institutions have told the DOL that advancements in technology have made it easier and cheaper than ever to assist even small investors with their asset allocation decisions. However, we think it is imperative that the DOL understands that there is a significant difference between assisting an individual with investment allocation decisions and assisting an individual with the management of all financial aspects of his or her life. While much of the former can be turned over to a computer, the latter requires the services of a financial advisor who has the requisite skills and experience to address the client's needs in a holistic manner. Given the expanded financial needs that exist today, very few advisors merely manage a client's portfolio. Most advisors serve as wealth managers. No computer can help one navigate through retirement planning, saving for college, accumulating money to buy a house, assisting aging parents, protecting the family against an unexpected death or illness, estate planning and even determining the best time to begin taking Social Security payments. These are complex and often deeply emotional decisions for which clients generally seek the advice of a trusted financial professional. If we remove the incentive for financial advisors to assist these clients, there will be a gap in the provision of essential services. Why will there be a gap?

In today's world, advisors are typically compensated for services one of three ways: commissions on products sold (including potential trails), a fee based on assets or an hourly, pre-determined rate. Many advisors will utilize a combination of these three compensation structures in order to match the most appropriate compensation structure to the needs of the client. For example, a client that buys and sells investments on a frequent basis will typically benefit from a fee-based structure, while a buy and hold client will typically benefit from paying commissions on each transaction.



If, as we predict, the proposed rule will cause all compensation models to move to one size fits all pricing, advisors are likely to determine that they cannot afford to work with small clients. Consider a client with a \$25,000 IRA. Assuming a common asset charge of 1%, advisors are unlikely to enter into a fiduciary relationship that requires essentially 24-hour a day, seven-day a week care for just \$250 a year. It is simply an insufficient amount of compensation for the amount of service he or she needs to provide for that type of fiduciary relationship. If a fee-based relationship won't work, what about a commission-based arrangement under the BIC? The answer is "no." Even if a firm could somehow become comfortable navigating all of the issues described above with the BIC, we believe the economics of a commission-based account will not incent an advisor to work with that client. The compression of commissions and trails that we described earlier will provide compensation to the advisor roughly equal to the \$250 he or she would receive under a fee-based arrangement. Given the amount of service the advisor will need to provide under the BIC, he or she will most likely not serve the client because the costs and liability will exceed the compensation received.

In our view, it should be up to clients to choose who they work with and how they pay that advisor. It's in no one's best interest to establish regulations that will disincentive either the client or the advisor to form a working relationship. We respectfully posit that DOL's belief that technology will somehow step in to fill any gaps in advice is a dangerous gamble. Yes, the small investor will be able to find an online solution that will assist him or her with asset allocation. But asset allocation will be the only thing that client receives. Even if the online solution is willing to offer access to financial planners via an 800 number at a higher cost, the current proposal will prohibit that "planner" from offering any actual advice. And most certainly that voice over the telephone will not be there to hold the client's hand when that client wants to sell at the worst possible time.

We know that the Department is well aware of the staggering amount of retirement plan leakage that currently occurs when participants separate from service. If the proposed rule reduces the amount of professional advice provided in these situations, which we believe it will, the amount of leakage will only grow. We understand that the Department has received a great deal of industry feedback on the potential negative effect this proposal will have on rollover advice, as well as service to small plans. We share the concerns you have received and would like to make two points for your consideration.

First, in many cases, the ongoing costs associated with a rollover IRA will exceed those an investor would experience in a plan like a 401(k). However, it is important to understand that one of the main drivers of that cost is the ongoing advice provided to the IRA owner. Investment decisions within a 401(k) are participant directed; therefore, one typically would expect lower costs because advice is generally not provided. While the Department may feel that investors are better served staying in a plan rather than rolling over assets to an IRA, we respectfully ask you to consider that many investors move assets into an IRA because they want the professional counsel of a financial advisor rather than continuing to make investment decisions on their own. The proposal as written will create difficulties for recommending a rollover because it overly emphasizes cost as a factor a fiduciary must consider, and downplays the service provided by financial advisors, as well as other factors a prudent person would consider.



Second, investors will expect more than an asset allocation pie chart as part of a rollover discussion with a financial advisor. They will expect specific examples of products that can be used to execute upon the asset allocation recommendation. It is our understanding that providing specific product examples crosses the boundary of education into advice under the proposal, thereby requiring a contract. Practically speaking, this construct will not work. Clients will be confused in a conversation where at some point the advisor must stop talking and indicate to the client that he or she will need to sign a contract in order for the conversation to continue.

## **Why the DOL Needs to Coordinate with the SEC and FINRA**

Today, Raymond James' primary regulators are the SEC and FINRA. At the holding company level, we are regulated by the Federal Reserve Bank of Atlanta. Because we also own a bank and a trust company, we are also regulated by the Office of the Comptroller of the Currency. Since we own an insurance general agency to facilitate the sale of insurance and annuities, we are regulated by every state. And of course, because we work with retirement plans, we are regulated by the DOL. As the number of regulators that oversee our business has grown, we have seen an increase in conflicting regulations that makes it difficult to comply with one without potentially being out of compliance with another. We are concerned that the current DOL proposal will exacerbate this situation.

To illustrate, in order to minimize conflicted advice we would need to assess fees or commissions of either a flat amount or percentage. In addition, these flat fees and or commissions would have to be the same for every product. In short, fees or commissions would be not only level, but also exactly the same no matter the product sold. This is the only structure that assures that an advisor is not incented to offer one product over another. While it may seem an appealing solution to the DOL, the SEC and FINRA would likely have an alternative view. For some time, the SEC has been concerned about a one size fits all pricing structure. They recognize that some clients are better off in a commission brokerage account than a fee-based account. Therefore, they continually audit firms to verify that the advisor really has enough portfolio oversight and/or wealth management to justify a fee-based account. In cases where they feel that the advisor does not provide enough service, they label it "reverse churning." Should the industry be forced to switch existing IRA accounts to a fee-based structure in order to satisfy the DOL proposal, we would likely find ourselves running afoul of SEC rules.

We also cannot understate how confusing the rules that govern our industry are for clients. Expecting an investor to understand why the same transaction is allowed in one account and not another is unrealistic.

## **Grandfathered Existing IRA Accounts Will Not in Practice Be Grandfathered**

At Raymond James, we currently have approximately 1 million IRA accounts. Roughly 70% are commission-based accounts. As we understand the proposed rule, these accounts would receive transitional relief. But one of the conditions that must be met is that an advisor no longer gives advice on any assets that were purchased prior to the passage of this rule and associated PTEs.

In our view, continuing to hold an asset for a client without being able to advise the client on that asset would in itself not be in the client's best interest. It is also confusing and impossible to implement in practice. Should a client ever ask what he or she should do with any of those particular investments, we would essentially be required to not answer. Such an approach would clearly violate one of the core beliefs of our firm. In addition, it would most certainly become another situation that would create a conflict with another regulator. FINRA is on record expressing that they expect an advisor to provide ongoing advice to our clients on any and all products our clients hold in their Raymond James accounts. Even a recommendation to hold an asset is considered by FINRA to be ongoing advice and is expected to be documented. So we don't see how in practice any asset could truly be grandfathered.

We would also like clarification as to how these accounts would need to be set up going forward. Assuming they would fall under the BIC, would we be required to repaper all of these accounts? Would we need to establish a contract with each of the account holders? Would clients be allowed to add to any investments in the account? Would either the advisor or the firm be allowed to receive ongoing trails or 12-1 fees or would they have to be credited back to the client? If the client were comfortable moving those assets into a fee-based account, would the SEC have any issues with that practice? We respectfully assert that the DOL's proposal in its current form leaves many questions unanswered.



## Conclusion

Raymond James has long supported consistency and clarity for consumers and the industry, and has advocated for a uniform fiduciary standard for all types of accounts from a regulator with broad authority.


The Department of Labor's current proposal does not offer that and instead will perpetuate confusion for clients about the standard of care they can expect. Beyond this basic issue of consistency, we believe the DOL proposal will reduce client choice, raise costs and, in some cases, marginalize clients from financial advice and services.

After thoroughly reviewing the DOL's updated proposal, consulting with our financial advisors and industry partners, and prioritizing clients' best interests, we respectfully request that the DOL partner with the SEC and FINRA for a more holistic solution.

Absent that, we request amendments to the BIC in order to make it more workable for investors, financial advisors and the financial services firms that work hard every day to support effective capital markets and economic growth in the United States. Specifically, eliminate the contract requirement and inoperable product disclosure requirements; remove wholesale product exclusions and employ existing regulation to govern use of products; and provide guidance on "reasonable" compensation.

We thank you for considering our views on this important proposal.


Sincerely,



Scott Stolz

Senior Vice President, Raymond James

PCG Investment Products & Solutions



Matthew Watts

Vice President, Raymond James

PCG Investment Products & Solutions

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## **YOUR RIGHTS AND RESPONSIBILITIES AS A RAYMOND JAMES CLIENT**

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## **A RAYMOND JAMES CLIENT'S BILL OF RIGHTS**

1. You have the right to courteous service – from your financial advisor and all other associates of our firm.
2. You have the right to select and work with a trustworthy, independent financial advisor who is professionally competent, personally dedicated, and who communicates with you on a regular basis about your portfolio. You may request information about your advisor's work history and background, and you may contact your state or provincial securities agency for verification.
3. You have the right to expect financial and investment recommendations based solely upon your unique needs and goals, consistent with the objective of enhancing your financial well-being. While the performance of investments may not meet your expectations and markets can underperform their historical averages, recommendations should be based upon the goal of attaining superior performance in light of the facts known at the time of investment.
4. You have the right to open, consistent communication and to have information presented in clear and understandable terms.
5. You have the right to reasonable, achievable projections of results, understanding that many unforeseen factors can frustrate expectations and result in losses, particularly in the short term.
6. You have the right to reasonable investment alternatives selected based on your individual objectives and presented with full disclosure of risks and benefits. Your trade confirmations will reflect any time that you initiate an investment decision without the benefit of or against the advice of your financial advisor, or if your account is managed by a professional money manager.
7. You have the right to know all costs and commissions associated with an investment, as well as fees our firm charges for services. An exception applies for securities traded in a principal capacity, where commissions and trading profits are included in the purchase price. For the latest listing of our fees and charges, visit [raymondjames.com/services\\_and\\_charges.htm](http://raymondjames.com/services_and_charges.htm) or ask your financial advisor.
8. You have the right to have transactions executed in a timely fashion, at the best available price and with prompt reporting. Your statements should reflect all positions and activity in your account. With the exception of infrequently traded securities, all positions should be priced as accurately as possible. Fixed income prices are often estimated using general formulas.
9. You have the right to have any errors corrected fully and any complaints addressed promptly. If a problem is not resolved to your satisfaction, you may contact the manager of your local office and/or Raymond James' international headquarters.
10. You have the right to strict confidentiality, complete discretion and full protection of your personal and financial information. We do not sell your information to anyone. Raymond James only provides information to external organizations when required by law or regulation or when necessary to provide the services you have requested. Unless you specify otherwise, Raymond James' subsidiaries may share your information within the Raymond James organization to provide informed, efficient service.



## **A RAYMOND JAMES CLIENT'S RESPONSIBILITIES**

1. You have the responsibility to share your current financial situation, needs and objectives, as well as changes in your financial and personal circumstances, with your financial advisor so that appropriate recommendations can be made. You should make time to meet with your financial advisor on a regular basis, at least annually, to review and revise your financial plan and portfolio as needed based upon changing circumstances.
2. You have the responsibility to understand and acknowledge that all investments have some degree of risk and it is possible to lose money on any investment.
3. You have the responsibility to review all statements and trade confirmations in their entirety, ensuring that your instructions were carried out as expected and reporting any errors to your financial advisor or Raymond James. Ask for clarification of anything you do not understand.
4. You have the responsibility to read prospectuses and offering documents fully, ensuring that you understand all risks and costs and that you ask for any necessary clarification prior to making a purchase. If you do not receive an offering document or prospectus, you should request one.
5. You have the responsibility to make timely payment for the purchase of securities. Generally, you should ensure that cash or available margin buying power is available in your accounts by settlement date, which for most securities transactions is three business days after the trade was executed. An advance deposit of funds may be required before trading for new clients, purchases of low-priced or volatile securities, or unusually large transactions to ensure timely payment.
6. You have the responsibility to understand that if you have chosen to participate in an asset-based fee relationship – in which you pay an annual fee for the advice and services provided by your financial advisor, independent of the level of trading activity – this fee may be higher or lower than the cost of a commission alternative. You should be satisfied with the total of all fees and commissions given the services provided.
7. You have the responsibility to seek the advice of a tax professional, CPA or attorney, as appropriate. Financial and investment planning inherently involve potential tax and legal implications, which financial advisors are generally familiar with. However, Raymond James and its financial advisors do not practice as lawyers or CPAs and cannot give specific legal or tax advice.
8. You have the responsibility to protect your Raymond James information, including statements, login names and account passwords, in order to ensure the security of your financial and personal data. Raymond James associates will not ask you for your password, and you should not give this information to anyone you do not want to have access to your account.
9. You have the responsibility to only accept payments from and make payments to Raymond James when dealing with representatives of the firm. Payment from any other business name or representative, including cash, should be reported immediately, and you should not make checks payable to a financial advisor or any other entity. You should also never borrow from or lend money to a representative of a financial institution.
10. You have the responsibility to maintain accessible records of financial plans, including the investments you've made and the rationale for purchase, to a family member or other trusted individual. We recommend you prepare an annual balance sheet detailing all of your investments, including their locations.

## IMPORTANT INVESTOR EDUCATION

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### INTRODUCTION

Investing is serious business. All investments involve risks that can result in losses even though the goal is to preserve and increase wealth. We believe you should have every opportunity to understand the risks, rewards and implications of the investment alternatives and services, as well as financial planning and investment strategies, offered for your consideration. With that in mind, we are providing you this explanation of considerations you should be aware of as an investor.

We encourage you to invest a little time now to read this important document before proceeding further with your financial planning and investment program. Even if you have read a prior version, you should read this revised edition as it is revised periodically to keep pace with modifications pertaining to industry regulations, as well as changes to the many investment alternatives and financial services available. For the most up-to-date version of this document, please visit [raymondjames.com/billofrights](http://raymondjames.com/billofrights) or ask your financial advisor.

Our investment philosophy goes beyond the primary objectives of preservation of principal, generation of income and capital appreciation. While there is no doubt these are important objectives for you, a personalized investment plan requires even more – the peace of mind resulting from exemplary service, education and appropriate risk management.

Therefore, all Raymond James financial advisors, including the one you have selected, are professionals supported by experienced associates who handle the execution and processing of transactions, a state-of-the-art computer

system to generate comprehensive account statements, online client services to give you convenient access to your accounts, and one of the most highly regarded research groups in North America to review investment alternatives before they are offered to you.

While having all of this support available to you is reassuring, we believe it is critically important that you first understand the investment process and your rights and obligations as an investor so that you may better utilize our support.

We believe this document is one of the most complete descriptions of the practical considerations dealing with investments. It also describes many of the policies and procedures employed by Raymond James. Furthermore, the “20 Keys to Better Investing” are useful in dealing with other firms. You should retain it for reference purposes after reading it upon receipt. Our hope is that you will become more knowledgeable as a result of reading this material and, as an informed investor, you will make better financial planning and investment decisions with assistance from your Raymond James financial advisor.

Since we are committed to enhancing our service, we solicit your suggestions for improvements. Please feel free to offer these to your financial advisor or to Client Services at 800-647-SERV (7378).

We appreciate and thank you for your business.



## 20 KEYS TO BETTER INVESTING

One of the fundamental building blocks requisite to the attainment of an individual's financial objectives is the establishment of a long-term relationship with his or her financial advisor. A financial advisor must be educated in the techniques of financial planning, possess an understanding of all the investment alternatives available in the marketplace, and exhibit unquestionable honesty and concern for his or her client. Raymond James makes every effort to attract and educate financial advisors who fulfill these criteria. Once you have selected a financial advisor who possesses these attributes and with whom you are comfortable, it is necessary to build that long-term relationship. Moreover, there are a number of simple rules of investing that our chairman of the board, Thomas A. James, believes should be followed throughout the relationship:

1. Communicate frequently and frankly with your financial advisor, particularly about your concerns with respect to any financial planning strategy, investment and/or compensation. An honest, sincere relationship is fundamental to the success of the client's efforts.
2. Work with a trained financial advisor to develop an agreed-to financial plan that will guide investment decisions. Review it at least annually and revise as needed.
3. Don't reach for unrealistically high returns. Keep expectations realistic. Any investment which is represented to provide significantly higher-than-market-rate returns generally is not legitimate. Investments such as prime bank notes, special bonds or accounts that promise double-digit interest, are just a few examples of the ploys to part you from your money. If an investment sounds too good to be true, it probably is and may not perform up to expectations. In periods of low interest rates, higher investment returns imply risk to the value of the principal. Be skeptical about "guarantees." Financial advisors cannot share losses or gains in a client's account.
4. While a prospectus or other investment literature can be intimidating, investing hard-earned dollars is a serious task and requires an investor's attention and involvement. With the assistance of a financial advisor, read the literature and strive to understand the investment's fundamentals, risks, potential rewards and costs. For example, different features and commission rates may apply to each mutual fund or annuity among the thousands available in the market.
5. Always strive for diversity among investments, styles and portfolio managers, even when investments appear to offer limited risk. Due consideration by a client and an explanation of the incremental costs of diversification by the financial advisor are integral to this decision-making process.
6. Establish cash distribution rate objectives on investments that are lower than actual earnings or yields. Since mutual funds, master limited partnerships (MLPs) and certain other investments often distribute more than earnings, clients should utilize a withdrawal plan that results in a growing principal account balance over the long run to compensate for inflation and growing cash flow requirements in the future.
7. An asset allocation model should be designed for a client, and a client and his or her financial advisor should meet regularly to determine if the client's changing economic circumstances require revisions to his or her portfolio. The asset allocation model should err on the conservative side, but almost always include some quality equity exposure. Inflation requires a growing principal balance to maintain the client's standard of living. The financial advisor should prepare meeting notes for the client's records.
8. All, or a substantial majority, of equity investments should be in professionally managed portfolios or in a diversified group of high-quality stocks. While emerging growth stocks and small-capitalization stocks have a place in every wealthy investor's portfolio, and should make up a modest

proportion of almost everyone's equity portfolio (with the exception of a retired person of insubstantial means), the vast majority of dollars should be in high-quality, recognizable names with favorable prospects. It is often useful to establish a separate small-cap or risk-oriented portfolio to ensure that a client and financial advisor have the discipline to understand and limit the risk.

9. Part of an equity investment portfolio should be invested in foreign equities through professionally managed international mutual funds and/or asset management portfolios. There are additional risks associated with international investing.

10. Asset allocation models for high-net-worth clients should include some real estate investments. Real estate investment trusts currently provide the most convenient vehicle.

11. As the name implies, income investments should always be purchased for the income they provide, but also for capital preservation. They should always be high investment grade unless a client is willing to assume incremental risk in exchange for the growth potential offered by income-producing equity investments such as dividend-paying stocks, bond funds or closed-end funds. Even then, the incremental yield may not be worth the risk.

12. Use margin in the Raymond James Ready Access Account (margin) sparingly for investment purposes. Leverage increases risk. However, if borrowing money for non-investment purposes, consider a Ready Access loan as it is often the lowest-cost alternative. Maintain the same discipline in paying down a Ready Access loan that you would with any other loan.

13. Treat IRAs and other qualified plan investments as very serious money and let the magic of compounding work with professionally managed stocks and bonds. Generally, do not fund qualified plans with partnerships or other complex

investments because they can lead to reporting, valuation and tax problems. Before opening an IRA or qualified plan account, clients should carefully review the IRA Agreement and Disclosure document or qualified plan trust document provided by their financial advisor and consult with him or her regarding any questions or concerns they may have.

14. Don't try to "time the market." Be a long-term investor, and practice patience and adherence to an asset allocation model. Avoid the latest funds. Dollar-cost-average where possible – continue to add to equity investments, if able, on a regular basis. Studies demonstrate that timing decisions need to be "right" over 70% of the time to add value, and moving to cash increases the risk that you may miss market rallies, which often run in short bursts.

15. Be both receptive to and skeptical about new ideas. Evaluate them carefully and use them in moderation.

16. Generally, avoid giving investment discretion to anyone other than financial advisors, professional managers or professional fiduciaries who have been approved by a reputable firm.

17. Everyone makes errors in investment selections. Learn to recognize an error and take losses early. It is generally far less painful to recognize a small loss than to ride it to zero. Do not make the mistake of waiting to recover the original cost.

18. Do not panic out of the market when investments have declined in value because of a general market decline. That is often the most opportune time to increase investment positions, as long as the fundamentals of the selections remain positive.

19. It is better to err on the side of conservatism than to be too aggressive.



20. Never purchase any securities outside the financial advisor's broker/dealer and immediately ask the firm about any purchase you have made not reflected on your client statement at the broker/dealer.

If you follow these common sense rules of investing, your results should have a higher probability of success. Although none of these "rules" work all of the time and there are no "guarantees" in the world of investments, these disciplines have produced excellent results over the long term. A disciplined approach to investing, assisted by a financial advisor with whom you have established a good relationship, will better enable you to attain your financial objectives.

## **UNDERSTANDING INVESTMENT RISK**

Securities investments, including mutual funds and even government bonds, are not insured by the federal government against market loss.

All investments contain some measure of risk, from the high risks attendant to investing in small, unproven companies to the risks of price fluctuations based on interest rate changes in investments issued by the U.S. Treasury or banks. There are fundamental economic risks associated with the operation of any individual business, including maintenance of product quality, success in research and development to assure a flow of new commercial products, competition, and adequate cost control, to name just a few. Some of these risks may transcend the individual company and relate to the health of the industry and/or the U.S. and world economies. Furthermore, reasonable investment objectives can be frustrated by factors outside of anyone's control.

Typically, low-priced stocks and newly issued securities, as well as securities of historically unprofitable companies, are considered speculative in nature, involve more than normal risk and can experience volatile price behavior.

For example, most stocks in new industries are relatively unproven companies whose valuations can materially exceed those based on traditional business methods. Call options are similarly speculative as the price declines over the option's life unless the underlying stock price moves up quickly. Although prospective investment returns may be higher than normal, only investors capable of sustaining the complete loss of their investments should purchase these securities.

In addition to the above fundamental factors, equity prices are affected by investors' perceptions of how the company, the industry, and/or the U.S. and world economies will perform. In any short period of time, perceptions can vary materially from reality. As a result, stock prices of companies with excellent results and fundamentals can decrease materially for substantial periods of time (e.g., in a bear market). In short, investments are subject to the impressions of others. Generally, this type of risk is mitigated by the length of time the security is held, as the stocks of companies exhibiting good long-term economic results generally perform well over an extended period of time. On the other hand, stocks driven by "irrational exuberance" (e.g., the "dot-coms") can lose 100% of their values.

The third principal risk involves the concept of duration. While holding fixed interest rate obligations until maturity provides return of principal, these investments vary in price as interest rates change during the life of the bond. Longer-term certificates of deposit are subject to the same risk. As interest rates rise, fixed income securities' prices generally fall to provide the market rate of return. Conversely, falling rates imply higher prices. While there are generally secondary markets for longer-term bonds and CDs, those markets can be illiquid and involve high spreads between the bid and ask prices, reflecting the infrequency of trading and the attendant risks to a market maker of finding a buyer at the appropriate price. Because of infrequent transactions

in fixed income securities, many of the valuations on client account statements could be the last (“old”) trade prices, costs or formulaic estimates of values – not bid prices – and may not reflect what a client might receive at the time of sale. Always consult with a financial advisor for a current bid or ask quote before initiating a transaction. Fundamental factors that might influence the issuer’s ability to pay also affect prices. If the debt instrument is subject to changes in interest rates by its terms, that can also negatively impact market price.

All but the most sophisticated and affluent investors should avoid purchasing significant amounts of fixed income securities that are unrated or rated below “BBB,” including high-yield (below investment grade) mutual funds. Although yields are normally higher to reflect the increased risk, issuers may fail to pay interest or be unable to make required principal payments, resulting in a loss of capital or a delay in the receipt of funds. Generally, investors should limit purchases of such securities, if any, to a modest amount of their portfolios and consider them equity alternatives. Similarly, many closed-end funds utilize lower-quality securities with leverage to enhance yield, which can generate principal losses, particularly in periods of rising interest rates.

Limited partnerships are generally illiquid and should not be purchased unless an investor is prepared to own them until the time the partnerships are scheduled to liquidate. Moreover, these investments generally are riskier than other securities because they often involve the direct ownership of units subject to commodity price risks, leverage risks and/or risks related to the direct ownership of operating businesses. However, since these investments are an excellent method of owning real estate, equipment and other tangible assets, as well as investing in venture capital, it may be prudent to allocate part of a portfolio to this category after weighing the above considerations, particularly when the economic outlook is inflationary.

The fourth investment risk relates to the type of security and its priority in the order of liquidation. Equity investments (i.e., common stocks) are most susceptible to the risk of loss if a company’s fortunes deteriorate. On the other hand, a collateralized bond (e.g., debt secured by an airplane owned by an insolvent airline) can still be “money good,” even in bankruptcy, provided the collateral value exceeds the debt.

A fifth investment risk relates to the use of margin (i.e., borrowed funds to finance all or part of the purchase of an investment). The following provides some basic facts about purchasing securities on margin and discusses the risks involved with trading securities in a margin account:

Before trading stocks in a margin account, clients should carefully review the margin agreement provided by their financial advisors and consult with them regarding any questions or concerns they may have with their margin accounts. Please note that margin accounts are not appropriate for all investors.

When purchasing securities, investors may pay for the securities in full or may borrow part of the purchase price from Raymond James. If the client chooses to borrow funds from our firm, he or she will open a margin account with us. The securities purchased are our collateral for the loan to the client. If the securities in the client’s account decline in value, so does the value of the collateral supporting the loan. As a result, Raymond James can take action, such as issuing a margin call and/or selling securities in the client’s account, in order to maintain the required equity in the account.

The use of margin increases the impact a price decline may have on the value of a client’s equity. In fact, a client can lose more funds than he or she deposits in the margin account. A decline in the value of securities that are



purchased on margin may require the client to provide additional funds to Raymond James to avoid the forced sale of those securities or other securities in his or her account.

Raymond James can force the sale of securities in a client's margin account. If the equity in an account falls below the margin maintenance requirements under the law, or Raymond James's higher "house" requirements, Raymond James can sell the securities in the account to cover the margin deficiency. The client also will be responsible for any shortfall in the account after such a sale.

The firm can sell a client's securities without contacting the client. Some investors mistakenly believe that the firm must contact them for a margin call to be valid and that the firm cannot liquidate securities in a client's accounts to meet the call unless it has contacted the investor first. This is not the case. Most firms will attempt to notify their clients of margin calls, but they are not required to do so. However, even if Raymond James has contacted a client and provided a specific date by which he or she can meet a margin call, our firm can still take necessary steps to protect its financial interests, including immediately selling the securities without notice to the client.

Clients are not entitled to choose which securities in their margin accounts are liquidated or sold to meet a margin call. Because the securities are collateral for the margin loan, Raymond James has the right to decide which to sell in order to protect its interests.

Raymond James can increase its "house" margin maintenance requirements at any time and is not required to provide a client advance written notice. These changes in policy often take effect immediately and may result in issuance of a margin maintenance call. A client's failure to satisfy the call may cause Raymond James to sell securities in his or her account.

Clients are not entitled to an extension of time on a margin call. While an extension of time to meet margin requirements may be available to clients under certain conditions, a client does not have a right to an extension.

Sixth, while it is often appropriate for an investor to incorporate foreign securities in a portfolio, these investments can be volatile and are subject to many additional risk factors, including currency fluctuations, possible political and economic instability, and different financial accounting standards. Generally, foreign securities are best purchased in a professionally managed mutual fund or asset management portfolio to achieve broader diversification, or through ADRs traded on U.S. securities exchanges.

Finally, market prices are a function of human emotions as well as rationally determined supply and demand. Thus, even when the fundamental investment characteristics are sound, individual securities or general market prices can decline, often for protracted periods of time. Investors must have patience and perseverance, as well as the courage, to invest or hold when things might look the bleakest, as long as the investment's fundamentals are intact.

Clients must make the final purchase or sale determination, unless they have established discretionary accounts with their financial advisors. While a financial advisor who is trained in these financial matters should be relied on for advice, on occasion those recommendations will not produce the expected results because of the complex nature of the risks described above. Since neither the financial advisor nor the securities firm shares directly in the profits of successful investments, except possibly those in fee-based accounts where the financial advisor's fee increases and decreases proportionately to the value of the account, the client necessarily bears the risk of loss from unsuccessful investing. Investing is a serious business, which,

while offering prospectively good returns, merits a client's attention to the decision-making process. Investors should remember that the higher the potential reward, the greater the potential risk of an investment.

### **REDUCING RISK THROUGH DIVERSIFICATION**

Avoid investing a high percentage of assets in one company, one sector or one securities classification. The combination of concentration and margin is a recipe for potential disaster. One way to reduce risk – in fact, we think it is the best way – is through asset allocation. Because investments can be affected by inflation, cyclical markets, fluctuating interest rates, world events, corporate operations, and new domestic laws and regulations, investors always face risk. By diversifying assets, the risk of any fluctuation adversely affecting a diversified portfolio is less than if “all of your eggs are in one basket.” However, diversification does not ensure a profit or protect against loss.

A client can diversify among different types of securities, debt, durations or companies possessing differing economics. The process of developing an asset allocation model specifically designed to complement each client's financial plan is essential to success in investing. Moreover, the model should be updated regularly to accommodate changing financial needs and personal circumstances.

Raymond James financial advisors can assist their clients in the asset allocation process and can help them understand the amount and types of risks inherent in each investment, which enables them to position their portfolios to work efficiently in ever-changing market conditions.

The first phase of our recommended asset allocation program organizes a client's investments into four categories: equities, fixed income, real estate and other tangibles, and cash equivalents. The recommended allocation among the classes is based upon the client's objectives, risk tolerance, time horizon and economic outlook.

When a client's asset allocation model has been put into effect, the program's second phase is an ongoing periodic review of how the portfolio is performing and what changes, if any, might be needed in view of changing variable conditions.

Asset allocation models are useful in the evaluation of different hypothetical portfolio structures, as well as in the analysis of trade-offs between risks and prospective returns in the process of selecting an appropriate asset mix.

Thus, while it is a client's right to expect our firm to use its best efforts to recommend investments that will perform and are suitable for the client's financial circumstances, it is the client's responsibility to ensure that his or her chosen financial advisor is aware of his or her overall asset allocation picture and to make the final purchase and sale decisions. In this way, the client can more intelligently balance the risks and reap the rewards of his or her investment selections.

### **SUITABILITY REQUIREMENTS**

Not every client should own every investment. Because certain investments involve greater risk, clients very often must have a specific net worth or income before they can participate in those investments. The objective is to protect the investor as much as possible from the associated risk.

Investment objectives – low, medium or high risk tolerance – help to identify the investment goals for each of your accounts as part of a comprehensive financial plan. Your financial advisor will work with you to collect this information upon opening each account in order to gain a clear understanding of what your financial goals and needs are. In order for your financial advisor to make investment recommendations, he or she must gather certain information related to your financial status and investment history to ensure that your investments are designed to fit your individual circumstances. All of this information, along with your objectives, is compiled when filling out your New Account Form. You can find the investment objectives you selected on the front page of each of your statements.



Because your situation may change from time to time, it is necessary for you to review your goals with your financial advisor on an ongoing basis.

A better understanding of the investment objective definitions below will ensure that you are selecting the appropriate objectives for your unique situation.

#### CAPITAL PRESERVATION

Clients with this main objective seek to avoid loss of capital, even if it means achieving a lower overall long-term return. Investments consistent with this objective include traditional CDs, money market funds, insured high-grade municipal bonds and certain government bonds. This objective, by the nature of the investments, would entail a low risk tolerance.

#### INCOME

Clients with this primary objective focus on the receipt of dividends and interest. Corporate and municipal bonds, preferred securities, utility stocks, options-covered call writing, and fixed-income mutual funds would be investments consistent with this objective. Risk tolerance can be low, medium or high, dependent on the credit quality and volatility of the securities selected for investment. For older or retired clients, the risk tolerance should be considered low, except in unusual circumstances.

#### GROWTH

Clients with this objective seek investments designed to appreciate in price over a period of time. Investments in this category include equity mutual funds, stocks and other types of equity securities. Risk tolerance can be medium or high for this objective depending upon the client's willingness and ability to tolerate losses.

#### SPECULATION

Clients willing to speculate risk significant loss of capital. Investments consistent with this objective include certain types of options trading, high-yield bonds and small-cap or microcap equities. Speculation entails a high risk tolerance.

## **INVESTMENT PRODUCTS: COSTS, COMPENSATION AND OTHER CONSIDERATIONS**

As a securities firm, we are in the financial consulting and transaction execution businesses. We are paid in commissions on transactions, fees based on assets and/or hourly fees. Generally, commissions on transactions range from less than 1% to 7% of the principal involved, depending on the type and size of the transaction.

The most common transactions are purchases or sales of securities on an agency basis in which the securities firm is utilized as an "agent" for the client. Except for very small transactions, agency stock and bond trades have commissions that generally range from .75% to 3% of the principal involved. The commission is added to the principal amount of a purchase or subtracted from the proceeds of a sale. A major portion of the cost is remuneration to the financial advisor. This directly and indirectly benefits the client, as the financial advisor earns compensation for providing the financial advice and dedicating the time to servicing the client's account. Contrasted to the costs of marketing and selling other types of products, these costs are very low and include both the internal and external out-of-pocket costs associated with effecting the trade on an exchange or in the over-the-counter market.

If a client generates considerable activity and consequent commission revenue or does not utilize the services of the financial advisor, a discount from standard rates may be negotiated. However, if a financial advisor is providing good service to a client, the client's cost is small contrasted to the value of professional financial advice. Good financial decision-making requires broad investment knowledge, a general understanding of tax laws, the capacity to analyze investment alternatives, and the skill to design a financial plan and complementary investment strategy customized to an individual's needs, objectives and risk profiles, as well

as input related to the method and timing of a transaction. Research information on securities provided by the investment firm is an essential element in the decision-making process.

Principal products (i.e., over-the-counter stocks or bonds in which the financial advisor's brokerage firm is a dealer as well as a broker) have commissions that are more difficult to identify. The financial advisor receives a commission that is referred to on the trade confirmation as a markup or markdown. Additionally, the broker/dealer may also make a trading profit or take a trading loss on the transaction. Prices are reflected to the client net of these costs.

New issues of securities include remuneration to the financial advisor and the securities firm. The amount is included in the offering price and reduces the net proceeds to the issuer. The total spread and the commission portion are described in the offering prospectus.

These securities include initial public offerings of all security types, new issues for companies that are already public, as well as open-end mutual funds, unit investment trusts and annuities, among others. In addition, there may be alternative methods of paying sales costs or discounts for which you may be eligible. (Please see "Mutual Funds" on page 19 and "Annuities" on page 24.)

An asset-based fee is an annual fee – paid quarterly – based on a percentage of assets in the account. The fee varies with respect to account size, types of securities, and the level of advice and services provided by the financial advisor. Through this compensation structure, the client, the financial advisor and the securities firm share a common interest in increasing the size of the client's assets. The asset-based fee is independent of transaction activity. As a result, the fee may be higher than the cost of a commission alternative during periods of lower trading

activity. When considering your payment alternatives, you should carefully analyze the projected costs of an asset-based fee account versus other types of accounts, including such factors as transaction size and volume, level of service expected from the financial advisor, and personal philosophical convictions.

There are also pricing alternatives utilizing asset-based fees, in conjunction with lower transaction fees, to accommodate various types of assets and activity levels. In the event a client wishes to purchase a new issue in this type of account, there is an exception, as the client will pay the commission described in the prospectus and that security will be excluded from the asset-based fee for one year.

Raymond James client accounts offer all of these pricing options. A client should consult his or her financial advisor to select the alternative or series of alternatives that best suit his or her individual needs.

In order to recognize that the use of leverage through a margin loan may be appropriate, financial advisors are compensated at a rate of approximately 15 basis points (0.15%) on margin balances, credited to them annually.

Commissions and related costs are reported to clients on trade confirmations. Read your confirmations, as they describe the security in detail not provided by other firms. A current copy of our fees and charges is available from your financial advisor or by visiting our website, [raymondjames.com](http://raymondjames.com).

#### **INDIRECT COMPENSATION FOR ORDER FLOW**

Some transactions, generally in equities and options, involve an indirect form of compensation to the firm. If transactions are directed to it, the firm receiving the directed order may reciprocate by giving other orders to the referring firm. This practice is somewhat common for listed



orders directed to “third-market” firms that execute trades at prices equivalent to or better than exchange quotes, as well as in the over-the-counter market. Similarly, firms may receive payment for order flow on some options transactions. The amounts vary substantially, but generally do not exceed \$0.75 per contract. All market makers do not pay for option order flow and such payment is not generally relevant in making the decision as to where to send the transaction.

Raymond James & Associates will send trades to a particular broker/dealer or market center in order to receive best execution quality. As a result, we may receive compensation. It may also be possible that this practice has resulted in markets that are less efficient. The source and specific amount of any such compensation are available upon request.

Additionally, Raymond James & Associates is a market maker in a number of over-the-counter securities. As a result of these directed orders, trading profits or losses may be generated by Raymond James in stocks purchased by clients.

## MUTUAL FUNDS

Raymond James<sup>1</sup> offers clients a wide range of investment alternatives and services, including a variety of mutual funds. Deciding which mutual funds to invest in can be complex. It is important for you to work with your financial advisor to evaluate how a fund's investment objectives, risks and associated costs fit your individual needs and objectives.

An important aspect of this fund screening and selection process is to read the fund's prospectus carefully before investing. Each prospectus contains important information that will help you make informed decisions. Your financial advisor will provide you a prospectus for the funds you are considering. He or she will also answer your questions on how the fund's shares are priced and the compensation the financial advisor and Raymond James will receive from your investment.

The popularity of mutual funds results from features including professional management, diversification, daily pricing and redemption, and ease of purchase, among other investor benefits. Because many funds have minimum investments as low as \$1,000, mutual funds have become the investment of choice for many large and small investors. Their popularity has grown significantly in recent years, and almost half of all U.S. households now own mutual funds (Source: Investment Company Institute *2004 Mutual Fund Fact Book*).

It is generally advisable to select a mutual fund whose manager has extensive experience and qualifications, along with a well-defined discipline and consistent performance record. While past performance is not indicative of future results, a fund's long-term performance record and manager tenure are also likely to be factored into the selection criteria. Your financial advisor will help you review a fund in light of your investment objectives to assist you in making a decision that may help you achieve your specific investment goals, as this selection may pertain to that portion of your portfolio.

## Costs

All mutual funds charge management fees, which are used to pay for the fund's continuing operation, including paying the fund's portfolio manager, accounting expenses and recordkeeping costs. Many funds also have sales charges, which are partially used to compensate financial advisors for providing financial advice and client service. These sales charges may be charged when you make your investment (known as a “front-end sales charge”), when you redeem your investment (known as a “back-end sales charge” or redemption fee) or annually, in the form of “12b-1” fees or service fees.

Please note that 12b-1 fees are used for overall marketing expenses and also to compensate the securities firm for activities or expenses related to distribution and/or retention

<sup>1</sup>Raymond James & Associates, Inc., and Raymond James Financial Services, Inc.

of fund shares, such as compensation paid to your financial advisor and to participating dealers who have entered into sales agreements with Raymond James; advertising, salaries and other expenses of Raymond James relating to sales or servicing efforts; expenses of organizing and conducting educational and sales seminars, printing of prospectuses, statements of additional information, and reports for other than existing shareholders; preparation and distribution of advertising material and sales literature and other sales promotion expenses; or for providing ongoing services to shareholders.

Depending on share class and the type of account, the initial sales charge can range from 0% to 8.5%, based on the fund and size of the transaction. For a further explanation of mutual fund share classes and their related fees, please visit the Financial Industry Regulatory Authority website at FINRA.ORG.

### **Reducing Sales Charges**

While it may sometimes be judicious to own mutual funds from different fund families, it may also increase your total costs. Fund families often offer discounts on Class A share sales charges based on the investor's total dollars invested within the fund group. The holdings levels necessary to receive these discounts are known as "breakpoints." Often, fund groups will allow you to combine your holdings with those of your immediate family members to reach breakpoints. Each mutual fund describes its breakpoint policies, including how investors can reach breakpoints, how the fund group defines which family members qualify as "related," and which funds and account types qualify for breakpoints, in its prospectus.

When your financial advisor executes trades in mutual funds on your behalf, he or she calculates any Class A share breakpoints to which you may be entitled based on accounts you have with Raymond James, as well as

The fund industry has developed share classes to give investors more choices for how they pay sales charges. The most common share classes are Class A, Class B and Class C. Each class has different fees and expenses applied, and therefore results in different performance outcomes when fees and expenses are included. While there are no standard, industry-wide definitions of these classes (each fund defines its share classes in its prospectus), some of the typical differences are discussed below.

**Class A** – This class usually carries a front-end sales charge. This means a percentage of your investment is deducted from your initial investment. Typically, Class A shares have lower expense ratios (total annual fund operating expenses as a percentage of the fund's assets) compared to the other share classes of the same fund. Most funds offer "breakpoint" discounts if you make a large purchase, already hold mutual funds in the same family in your account or commit to purchasing additional shares. These breakpoints are described in the fund's prospectus. Please see the "Reducing Sales Charges" section for more information. For very large purchases, A shares are often the least expensive option.

**Class B** – This class is characterized by a back-end sales charge, meaning that a sales charge may be paid when you redeem (sell) the fund. Class B shares do not usually have a front-end sales charge at the time of purchase. They impose a contingent deferred sales charge (CDSC), which you pay if you sell your shares prior to the end of the CDSC holding period. The CDSC normally declines and eventually is eliminated the longer you hold your shares. Once the CDSC is eliminated, Class B shares usually convert to Class A shares. Class B shares will generally have higher management expense ratios when compared to front-end shares (usually Class A) within the same family. Since Class B shares rarely offer breakpoints, they are usually inappropriate for large purchases.

**Class C** – This class has a constant sales fee that is charged to the fund each year throughout the life of the investment in the fund. Class C shares frequently impose a contingent deferred sales charge (CDSC) if you sell your shares within a short time of purchase, usually one year (see the fund's prospectus for more information). Class C shares typically have higher management expense ratios than Class A shares. In most cases, the expense ratio would be higher than Class A shares, and even Class B shares, if you hold the shares for a long time.

Because your expected holding period for each mutual fund plays a role in determining which share class is best for you, you should provide your financial advisor information about how long you plan to hold your mutual fund shares.

**Fee-based Accounts** – Mutual funds may also be owned in fee-based accounts. In fee-based investment advisory accounts, an annual fee – paid quarterly – is based on a percentage of assets in the account. The fee varies with respect to account size, type of securities managed, style of management and/or other services provided. One advantage is that you can select funds from different fund families without concern for commission charges. Since it is an asset-based fee, costs are usually independent of transaction activity. Additionally, the financial advisor and the securities firm share the client's interest in seeing the value of the assets increase. When considering your alternatives, you should carefully analyze the projected expense of a fee-based account versus commission-based accounts, including such factors as transaction size and volume, level and types of service expected from the financial advisor, as well as your own convictions as to how you are most comfortable paying for these services. Fees are negotiable.

other account information you have shared. However, if your financial advisor does not have the most complete information concerning your investments, particularly any held directly with a fund company rather than through the securities firm, he or she may not be able to best help you take advantage of sales charge breakpoints – either through recouping charges you may have overpaid or by taking advantage of breakpoints in the future. Therefore, you should take a few minutes to review your records to determine what other mutual fund investments you have made either at other securities firms or directly with fund companies, and regularly provide that information to your financial advisor.

Although mutual fund breakpoint policies can differ, here are some common ways they can be achieved:

**RIGHTS OF ACCUMULATION:** “Rights of accumulation” allow you to combine your mutual fund purchase with your existing investments in the fund family to reach a breakpoint on new purchases. Rules for rights of accumulation and precise breakpoints will vary from one fund family to the next. Consult the prospectus and/or your financial advisor for information on how rights of accumulation may be applied to their specific investments.

**LETTER OF INTENT:** Investors can take advantage of rights of accumulation from the time they purchase initial shares by agreeing to invest a certain dollar amount over a specified period of time. In most instances, this requires signing a Letter of Intent (LOI). In addition, many mutual fund companies also permit investors to include purchases completed before the letter of intent is signed, by instating a retroactive letter of intent. However, if the amount stated for investment in the letter of intent is not invested, the fund can retroactively collect the higher sales commission.

**NET ASSET VALUE (NAV) TRANSFERS AND BUY BACKS:**

After an investor redeems fund shares, some fund families will allow him or her to buy back into certain funds within a certain time frame without a Class A share sales charge. They may even allow the investor to apply past redemptions of funds from other fund families toward purchases into their fund family at no sales charge. Please see a fund’s prospectus or the statement of additional information (SAI) or specific policies.

Finally, it is important to note that while Class A share breakpoints are beneficial, you should not forsake prudent asset allocation among mutual funds simply to take advantage of them. It is wise, however, to select a mutual fund that is part of a family of funds if you choose to purchase Class A shares in a commission-based account. As your objectives change, you can switch among the funds in the family whose objectives most closely meet your needs without incurring an additional sales charge. Staying within the same fund family may be preferable, since switching from one fund family to another often involves additional costs or fees. At the same time, there can be legitimate reasons to switch to a fund in another family of funds when the existing fund family does not have the type of fund required or that fund family’s alternatives don’t appear to be as well managed based on long-term historical results.

If you do choose to switch to a fund in a different family or to another type of investment, and your account with Raymond James is commission-based, you will most likely incur a sales charge on the new investment. In those instances when a mutual fund switch to a different fund or to a variable annuity will result in a new commission being charged, you and your financial advisor will be required to execute a Mutual Fund/Annuity Switch Disclosure Form. The additional sales charges, if any, will be disclosed on this form and you will be asked to acknowledge that you may have been able to switch within your existing open-end mutual fund family.



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**How Raymond James and Your Financial Advisor are Compensated**

Raymond James and your financial advisor receive compensation for selling, recordkeeping and monitoring mutual funds that varies by share class. Raymond James is paid by the fund family from the total commissions, fees and expenses paid by investors, and a portion of that payment to Raymond James then goes to your financial advisor. The compensation formula to determine the amount of payment to your financial advisor is the same for all funds, including any funds managed by Raymond James' affiliates as investment manager.

Some fund classes carry higher sales charges or asset-based fees than others (e.g., Class A shares may have higher or lower front-end sales charges, depending on the size of the purchase and therefore higher or lower compensation to Raymond James than Class B shares). As a result, your financial advisor may receive more or less compensation depending on the fund or share class you purchase if purchased on a commission basis. In addition, while the absolute amount of your financial advisor's initial compensation is lower for Class C shares, the percentage of the initial payment, in some instances, may be greater than the percentage that the financial advisor receives for the sale of Class A or Class B shares.

Raymond James does not participate in programs that provide preferential treatment to financial advisors based upon the sale of certain mutual funds. Raymond James financial advisors are compensated at the same level and compete on a level playing field in terms of transaction charges for sales within all fund families.

Our financial advisors currently have available approximately 9,000 mutual funds from more than 230 fund families.

EDUCATION AND COMMUNICATION: Consistent with

FINRA rules, fund distributors and/or their affiliates may compensate Raymond James for training and education seminars for Raymond James' associates, financial advisors, clients and potential clients. This may include due diligence meetings regarding their funds, recreational activities or other non-cash items. The representatives of fund companies attend meetings, provide speakers for educational presentations and attend events where they can interact with our financial advisors.

**Other Raymond James Services and Compensation**

Mutual fund companies may also compensate Raymond James and its affiliates for services in addition to sales charges and asset-based fees in connection with clients' purchasing and holding mutual funds. This compensation may not be disclosed in detail in a fund's prospectus.

Raymond James' clients can purchase shares of those mutual funds whose affiliates have entered into contractual arrangements with Raymond James. This contractual arrangement provides for the payment of one or more of the fees described below. These fees do not purchase placement on any preferred product lists or any special positioning or research coverage of funds by Raymond James. Instead, these fees are used to cover the types of services outlined below and are not shared with Raymond James financial advisors or their branch managers as compensation.

ADMINISTRATIVE AND OTHER: Fund companies with funds electronically linked or "networked" with a broker/dealer's account system or with funds available through a broker/dealer's fee-based account programs often reimburse broker/dealers for a portion of their account administrative costs, which can include accounting, reporting and other services to shareholders.

Networking is a service that enables the sharing of data be-

tween Raymond James and mutual fund companies. For networked accounts, Raymond James – rather than the mutual fund company – produces statements, trade confirmations and IRS form 1099s, in addition to providing client service. Fee-based account-eligible funds may reimburse Raymond James up to \$15,000 annually for the costs associated with setting up the funds for availability in these accounts, performance reporting software, enhanced statements, and marketing- and sales-related costs, among others.

**MARKETING SERVICE AND SUPPORT:** Raymond James provides a variety of marketing services and other support to sponsors of mutual funds regarding their funds. These services include, but are not limited to, the provision of: detailed mutual fund information to financial advisors, strategic planning support to assist fund sponsors by making financial advisors available for educational information regarding their funds and branch office support, including phones, computers, conference rooms, as well as facilities and distribution support for prospectuses and promotional materials relating to their funds.

**CERTAIN RETIREMENT PROGRAM ADMINISTRATION FEES:** Raymond James receives an annual fee of up to \$5,000 for providing administrative services to the mutual fund companies that offer corporate retirement plans.

**AFFILIATED FUNDS:** Raymond James makes available to its clients a variety of mutual funds advised by its affiliate, Eagle Asset Management. Raymond James may receive more revenue from selling these funds because it receives compensation for providing these affiliated funds investment advisory, administrative, transfer agency, distribution and/or other services that Raymond James may not provide to unaffiliated funds. However, it is important to note that Raymond James financial advisors receive the same compensation and compete on a level playing field for sales of

funds from all available fund families.

**OTHER SERVICES:** Raymond James Financial, Inc. (NYSE-RJF) is a Florida-based diversified holding company whose subsidiary companies provide financial services to individuals, corporations and municipalities. For these services, Raymond James receives compensation. As a result, Raymond James pursues additional business opportunities with companies whose mutual funds Raymond James makes available to its clients. Consistent with industry regulations, these services could include (but are not limited to) banking and lending services, sponsorship of deferred compensation and retirement plans, investment banking, securities research, institutional trading services, investment advisory services, and effecting portfolio securities transactions for funds and other clients. Raymond James professionals who offer mutual funds to individual investor clients may introduce mutual fund company officials to other services that Raymond James provides.

A mutual fund's business policies can be found in its statement of additional information, which is available on request from the fund company. For additional information on mutual funds in general, contact your financial advisor or visit the educational websites of the U.S. Securities and Exchange Commission at SEC.GOV, the Financial Industry Regulatory Authority at FINRA.ORG, the Securities Industry Association at SIA.COM, and the Investment Company Institute at ICI.ORG.

#### **Disclosure**

Mutual fund companies are required to outline revenue-sharing arrangements, along with a fund's fees and risks in their prospectus and/or statement of additional information.

In addition to the disclosure information posted in this brochure, Raymond James provides disclosure through:

- Our trade confirmations. Each mutual fund trade confirmation indicates, "Raymond James & Associates, Inc. or its affiliates may have received compensation from the distributor of this fund, or the fund's investment advisor or sub-advisor. This may also be referred to as revenue sharing."
- Sponsor companies, which may also route some portfolio trades through those distributors for execution and research services. These payments do not generally exceed \$.05 per executed share.
- Our open-end mutual fund research reports on which the following disclosure appears: "Raymond James & Associates, Inc. or its affiliates may have received compensation from the distributor of this fund, or the fund's investment advisor or sub-advisor."

Investors should carefully consider the investment objectives, risks, charges and expenses of mutual funds before investing. The prospectus contains this and other information about mutual funds. The prospectus is available from your financial advisor and should be read carefully before investing.

## ANNUITIES

Another investment alternative that has grown in popularity is the annuity. Annuities are investment products – issued by insurance companies – that offer tax-deferred capital accumulation as well as certain types of insurance guarantees. Annuities also have the ability to provide a guaranteed lifetime income stream. All guarantees are backed by the issuing insurance company and its ability to pay. Consequently, careful research is required before purchase. Additionally, if you are buying an annuity to fund a retirement plan that already provides tax deferral (such as an IRA, 401(k) or 403(b) plan), you should do so for the annuity's other features and benefits, because tax defer-

ment would not be an additional benefit.

There are four basic types of annuities:

- An immediate annuity is purchased with a single payment and, characteristically, distributes a specified income stream that commences immediately.
- A fixed annuity guarantees a fixed rate of return for a specified period of time. It is generally designed to provide guaranteed-level payments for a specified period of the annuitant's lifetime, on a tax-advantaged basis.
- A fixed index annuity, or equity index annuity, as they are commonly referred to, is a type of fixed annuity in which the rate of return is tied to a well-known index such as the S&P 500. Returns are capped at a certain percentage, as determined by the insurance company.
- A variable annuity combines many of the characteristics of mutual funds with the tax-deferral and the insurance features of annuity products, such as a guaranteed minimum death benefit regardless of the current value of the account. A variable annuity may be invested in an array of investments as described in the prospectus issued by the issuing insurance company. Each variable annuity may offer a variety of managers and investment opportunities that may be utilized individually or in combination. Keep in mind that, like most investments, variable annuity contracts will fluctuate in value and are subject to market risk, including the potential for loss due to market declines. When making decisions among the investment alternatives offered, investors must consider their overall asset allocation objectives.

The most common compensation option for annuity contracts involves the payment of a commission to the firm, which the insurance company advances from future annual fees. The annuity contract usually includes a contingent deferred sales (surrender) charge, which declines over time, to recompense the insurance company for the advance of



commissions and other front-end costs should the investor cancel during the surrender charge period. Annual fees are usually higher in annuity contracts than those associated with mutual funds with similar objectives in order to pay for the higher commissions and insurance benefits. Hence, investors should compare both cost structures in conjunction with individual tax considerations before investing. Investors should select variable annuities with ample investment options to avoid incurring a surrender charge should they decide to change their investment options.

Many annuities are priced on our client account statement for information purposes. We continue to add companies and products as we are able; however, not all insurance companies or annuity products provide us with this information.

#### **Compensation Paid to Raymond James When You Purchase a Variable Annuity**

Commission schedules and amounts vary by insurance company and annuity product. What, and how, Raymond James and your financial advisor are compensated when you purchase a variable annuity depends on the type of annuity you purchase and the insurance company issuing the annuity.

You should feel free to discuss with your financial advisor how he or she is compensated following your annuity purchase. This document explains in general terms how the compensation arrangements work.

#### **Contingent Deferred Sales Charge Annuities**

When you purchase a variable annuity, Raymond James is compensated by the insurance company issuing your annuity contract. Subsequently, your financial advisor receives a significant percentage of the annuity commissions. The commissions paid to Raymond James by the insurance company are not deducted from your purchase payments. If you surrender your annuity during the contingent deferred sales charge period specific under your annuity contract, a "sur-

render charge" is deducted from the annuity value that is returned to you. The surrender charge amount may reimburse the insurance company for costs associated with marketing the annuity product including the commission paid.

#### **How Your Financial Advisor Receives Commissions**

Your financial advisor typically has a choice of commission options regarding receipt of the commission payable to Raymond James. The insurance company that issues your contract pays the commissions directly to Raymond James and recoups the marketing and distribution expenses, including commissions, over time from your annuity contract expenses. In most cases, the structure of the commission selected by your financial advisor will have no impact on your annuity contract expenses. Annuity products may offer the following commission options:

- A single, lump sum commission based on your purchase amount,
- A slightly reduced lump sum commission and asset-based trail commissions paid quarterly over a number of years, or
- A further reduced lump sum commission and higher asset-based trails paid quarterly over a number of years.

#### **Other Compensation Paid to Raymond James by Insurance Companies**

Raymond James distributes annuities from at least 20 insurance companies and receives additional compensation from them in the form of sales- and asset-based education and marketing support payments. The additional compensation is not paid directly from the assets of your variable annuity. Moreover, no portion of these payments received by Raymond James is paid or shared directly with your financial advisor or his or her respective branch office. The payments are paid directly from the insurance companies and are not deducted from the separate accounts that hold the variable annuity assets.

### Education and Marketing Support Payments

Raymond James provides a variety of marketing and other sales support services to insurance companies related to their annuity products. These services include, but are not limited to:

- Providing detailed product information to financial advisors,
- Assisting insurance companies with strategic planning and sales support,
- Providing presentation opportunities during professional development workshops, study groups, and other Raymond James events and conferences, and
- Distribution support for sales literature and other promotional materials relating to their annuity products.

The marketing service and support fees come in a variety of forms, including payments sometimes referred to as “revenue sharing” fees and 12b-1 fees. This compensation may not be disclosed in detail in a variable annuity’s prospectus or contract language. At Raymond James, these fees do not provide placement on any preferred or recommended product lists.

The following schedule gives you an idea of the potential level of marketing support or revenue sharing fees that Raymond James may receive from a particular insurance company or distribution affiliate:

- Up to 0.15% on variable annuity purchases (e.g., \$15 for a \$10,000 purchase),
- Up to 0.05% per year on assets totaling less than \$500 million,
- Up to 0.04% per year on assets totaling \$500 million to \$1 billion,
- Up to 0.03% per year on assets totaling \$1 billion to \$2.5 billion, and

- Up to 0.02% per year on assets totaling \$2.5 billion or greater.

The actual amounts that Raymond James may receive will vary from one insurance company to another and investments in certain variable annuity share classes and/or investment sub-account options may be excluded from the above formulas.

In addition to payments described above, insurance companies and/or distributors will periodically reimburse Raymond James for expenses incurred in connection with certain training and education meetings, conferences, and seminars. Raymond James financial advisors may also receive promotional items, meals or entertainment, or other similar “non-cash” compensation from representatives of the insurance companies.

Please contact your financial advisor with any questions regarding insurance-related products and services, your specific annuity contract(s), or regarding the insurance company relationships with Raymond James.

*Investors should consider the investment objectives, risks, and charges and expenses of variable annuities carefully before investing. The prospectus contains this and other important information. Prospectuses for both the variable annuity contract and the underlying funds are available from your financial advisor and should be read carefully before investing.*

*Variable annuities, issued by insurance companies, are long-term investment alternatives designed for retirement purposes. Withdrawals of taxable amounts are subject to income tax and, if made prior to age 59½, may be subject to a 10% federal tax penalty. An investment in variable annuities involves risk, including possible loss of principal. The contract, when redeemed, may be worth more or less than the original investment.*

### EQUITY RESEARCH REPORTS

Raymond James devotes considerable resources to providing quality research, and publishes reports on more than 600 companies in a variety of industries. Our analysts are often recognized for stock-picking performance, both individually and as a group. In fact, the team's stock-picking recommendations have regularly finished first for five-year performance in an annual survey conducted by Zacks Investment Research, consistently outperforming the market, as well as the stock selections of competing firms.

Because research must be supported by revenue-producing activities, potential conflicts of interest exist. More specifically, research is typically paid for by commissions generated through institutional and retail sales and trading, as well as by investment banking activities, including stock underwriting. Since managements may not respond well to negative conclusions about their companies' stock or, in the case of large institutional holders, about recommendations vis-à-vis the stocks that they own, it is possible that those constituencies might attempt to influence analysts' opinions. Raymond James' policy is to require analyst objectivity and to support analysts' conclusions, even if contrary to the interests of our investment banking activities. It should be noted that while all parties may be well-intentioned, these assessments are somewhat subjective and differences of opinion are quite normal.

The following is Raymond James' position on the independence and integrity of our research and our policies to manage potential conflicts of interest.

Research is conducted in a manner consistent with the firm's business principles and investor objectives. The firm encourages thorough and insightful assessments of industries, companies, and the outlook for individual securities and the general market. Raymond James prizes analyst independence, objectivity, thorough analysis and integrity.

Management believes that value-added analysis and independent judgment are critical elements in the quest for superior investment performance. Raymond James equity analysts strive to anticipate both positive and negative information and to respond accordingly with timely changes in ratings, earnings estimates and price targets. Our primary goal is to contribute to the success of our investing clients by providing opinions and information based on the analysis of available facts.

A variety of factors go into the research process, including an assessment of industry dynamics, interviews of company executives, analysis of the competition, and information as available from the suppliers, distributors, major customers and other independent sources. Analysts are encouraged to develop opinions that may differ from those of the management of companies that they are evaluating. Valuation methodologies, investment risks and conclusions are discussed in all basic company research reports.

Expected returns are utilized in our ratings analysis, but these expectations are not a guarantee of the success of the investments and are the analysts' own opinions based on an individual analyst's assessment of a company's prospects and his or her "guess" about market direction.

This analysis is summarized in a rating for stocks in our coverage universe as follows:

- **Strong Buy** – The stock is expected to appreciate and produce a total return of at least 15% and outperform the S&P 500<sup>2</sup> during the next six months. For higher yielding and more conservative equities, such as real estate investment trusts and certain master limited partnerships, a total return of at least 15% is expected to be realized over the next 12 months.
- **Outperform** – The stock is expected to appreciate and outperform the S&P 500 over the next 12 months. For



higher yielding and more conservative equities, such as REITs and certain MLPs, an Outperform rating is used where we are comfortable with the relative safety of the dividend and expect a total return modestly exceeding the dividend yield over the next 12 months.

- **Market Perform** – The stock is expected to perform generally in line with the S&P 500 over the next 12 months and is potentially a source of funds for more highly rated securities.
- **Underperform** – The stock is expected to underperform the S&P 500 or its sector over the next six to 12 months and should be sold.

Obviously, stocks that we consider most attractive for purchase are rated Strong Buy. Our Focus List includes the Equity Research Department's favorite Strong Buy-rated securities. While past performance does not guarantee future results, the firm's Focus List has performed better than the Strong Buy-rated securities over time, as would be expected. Generally, we believe that only stocks in the first two categories – Strong Buy and Outperform – should be purchased or retained, as the goal of research is to outperform the market. Market Perform-rated securities are not expected to do that and, depending upon other considerations such as taxes and portfolio diversification, can be viewed as either holds or sources of funds. These decisions are typically client- or portfolio-specific and we recommend that clients seek the advice of their financial advisors.

Since our research is limited to 700 public companies, which are often small- or mid-cap, we supplement it with research provided by select other firms, which focuses on larger public companies. We do not independently verify their information.

Raymond James financial advisors are not required to conform to the firm's opinions. Financial advisors, who are more familiar with an individual client's needs, objectives

and tolerance for risk, are better able to assess whether a stock is suitable for that client and/or may have a different opinion of the investment merits of the security, as may other research sources. For example, the direction of rating changes – upward or downward – is often considered as critical as the rating itself, since good or bad news often comes in doses over a period of time. It is also possible that a stock may “bottom out” before the company's fundamentals have improved and the stock may represent a good value even though the analyst has not yet upgraded the stock. Nonetheless, additional care should be employed when purchasing stocks other than recommendations rated Strong Buy.

In addition to rating stocks relative to the market and industry group, we also provide ratings that should be used to help determine investor suitability:<sup>3</sup>

**TOTAL RETURN** – More conservative investments with dividend yields of 2.5% or more and favorable appreciation prospects.

**GROWTH** – Quality companies with well-above average appreciation potential, quarterly earnings consistency and possibly a small dividend.

**AGGRESSIVE GROWTH** – Companies with rapid growth potential and accompanying higher risks.

**CYCLICAL** – Companies with fundamentals that are unusually sensitive to changes in major economic trends.

**SPECULATIVE** – Small companies with high risks, including variable earnings, financial and competitive factors, and liquidity issues.

**VENTURE RISK** – Newer companies with a short, unprofitable operating history, limited revenues and a much higher-than-normal risk associated with success.

<sup>2</sup>The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. Keep in mind that individuals cannot invest directly in any index and index performance does not include transaction costs or other fees, which will affect actual investment performance.

<sup>3</sup>Suitability ratings are not assigned to stocks rated Underperform.

While our analysts' track records are good, they are far from perfect. Analysts are not able to independently check and verify all facts and, to a large degree, must rely on information provided in public financial disclosure and by company officials. Regulatory actions designed to assure equal disclosure to public investors may even have impeded the timely flow of information to analysts. Overly optimistic or fraudulent management can mislead analysts and financial advisors. However, our analysts attempt to develop other industry information sources from trade groups, government agencies and competitors, as well as suppliers and customers of the subject companies. In periods of poor general market performance, it is difficult for individual securities not to be affected. All the other factors included on page 13, in the "Understanding Investment Risk" section of this brochure, may also cause our ideas not to perform as expected. Thus, our recommendations represent our analysts' best judgments given available facts and public information, not guarantees of investment performance. Some of our ideas will lose money, although historically, our average long-term performance has been very good.

Raymond James and Associates policies and procedures are reasonably designed to ensure compliance with regulatory rules applicable to equity research.

Research management is committed to providing an environment that encourages thorough and independent securities analysis unaffected by inappropriate influences upon stock ratings, earnings estimates and price targets. Our operating principles are designed to minimize or eliminate the potential for conflicts of interest. Sources of conflict may be internal in nature, stemming from the fact that we may be an investment banker to a covered company, or external in nature, such as potential pressure from covered company executives or institutional owners. Research is organized and policies are in place to manage poten-

tial conflicts. For example, if a report is to be reviewed by a company for factual accuracy prior to publication, the investment rating and thesis are removed to ensure analyst independence and confidentiality with respect to the intended rating.

Equity analysts' compensation is based on a salary and bonus system. Many factors enter into the bonus determination, including the analyst's success in effectively rating stocks versus an industry index. Other factors considered include: overall productivity, support effectiveness to our financial advisors and traders, institutional research votes, and business generated in covered stocks. In all cases, this assistance must comply with all U.S. Securities and Exchange Commission, NYSE and FINRA regulations and, most important, place investor interests above all else.

Research does not and has never reported to the Investment Banking Department at Raymond James. Moreover, Investment Banking has no direct or indirect approval of the ratings, earnings estimates and/or price targets of companies covered, whether the subject company is an investment banking client or not. Although an analyst may occasionally be brought "over the wall" to work with an investment banker on a transaction, it is clearly understood by all parties that the independence of the analyst and the interest of the investing client are the first priorities of the analyst. In fact, the analyst's opinion is solicited in the due diligence process to determine if our firm should assist a potential corporate client.

Analysts and other research employees are required to put client interests ahead of personal investments. Moreover, personal interests must be fully disclosed and consistent with investment recommendations. Analysts and their research associates are not permitted to purchase equity-related securities in companies that they cover. They are

permitted to sell existing equity positions in covered companies no sooner than five days after the rating has been reduced to Underperform.

Analysts' and research associates' ownership of stocks that they cover is disclosed in all equity research reports discussing those securities. Additionally, relevant private investments or business interests cannot conflict with company analysis and must be disclosed in related company reports. Finally, analysts cannot cover securities of companies in which they or members of their households or immediate families are officers, directors or advisory board members.

Raymond James' clients have the right to expect the firm's analysts to provide advice reflective of their objective conclusions after diligent analysis. That research must be intended to generate results consistent with the clients' best interests, though some of those recommendations will inevitably prove unprofitable. However, when investing in individual stocks, it is the client's responsibility to read the research in order to make better-informed investment decisions.

### **KNOWING WHAT YOU ARE READING WHEN YOU READ A PROSPECTUS**

If consideration is being given to purchasing stock in an initial public offering or secondary offering, the prospectus is one of the most important documents for investors.

If the prospectus is for a mutual fund, investors should closely examine sections related to:

- **Risks** – What types of investment risk are inherent to the investment? For example, is it a lower-quality issue or one from a smaller, less proven company? Does the investment present any structural risks, such as reliance on an insurance company's backing? What is the risk that the fund may not meet its stated objective?

- **Expenses** – Examine items such as sales charges and internal administrative expenses to determine the costs of owning shares in the investment. Are these costs reasonable in relation to the fund's asset size and investment objective?
- **Management experience** – Study the management team. What are the members' backgrounds? How long have they been in their positions? Do they have extensive experience managing money within the fund's stated objective?

When reading a prospectus for an initial public offering or a secondary offering, investors should carefully consider:

- **The company's business model** – A potential investor should be comfortable with the issuer's business model, including the company's actual products or services provided, strengths and weaknesses within its industry, the diversity of the company's customer base, the competitive landscape, and strategies for future growth.
- **The offering composition** – Determine if the offering is 100% primary stock (coming from the issuing company) or if there are any selling shareholders. If there is a selling shareholder component, analyze the shareholders' stock positions before and after the offering and determine the reason for the shareholders' desire to liquidate.
- **Financial statements and management's discussion** – Develop a general understanding of the trends in the company's top and bottom lines. Review the company's capital structure and accounting methods. Check for any pending legal matters.
- **Risk factors** – Potential investors should review this section of the prospectus very closely. Understand each point in-depth and determine whether the risk of the offering conflicts with your own risk tolerance profile.
- **Use of proceeds** – Determine the use of the proceeds



from the offering. There should be a defined use that will improve the issuing company's fundamental story in some way, whether it is through funding an acquisition or future growth, improving the capital structure, or another reason.

- **Management** – Learn about the issuer's management team. Focus on its experience within the industry, its compensation structure, the level of insider ownership and other incentives it has.
- **Board of directors** – Research the company's board of directors for experience and how its members are compensated. Determine the number of outsiders on the board.
- **Underwriters and accountants/auditors** – Determine the experience and reputation of both the underwriters of the offering and the company's accountants/auditors.

Before investing in a public offering, or any offering for that matter, read the prospectus carefully and don't be afraid to ask your financial advisor questions.

## **COMMUNICATIONS WITH YOUR FINANCIAL ADVISOR AND OUR FIRM**

### **Communicating with Your Financial Advisor**

Your financial advisor is available to answer your questions and discuss your investment strategies during normal business hours. Appointments can generally be arranged at a time convenient to you. Your financial advisor is responsible for explaining all pertinent aspects of each investment that you consider, particularly risk factors, realistic rates of return and liquidity. You also have every right to ask for literature and receive prospectuses when appropriate. If you do not clearly understand what you have read, please ask your financial advisor to explain the material to you. Never, under any circumstances, approve a financial plan or initi-

ate a transaction until you clearly understand what you are agreeing to and/or buying or selling. For quotes and current marketing information, please feel free to call at any time. If your financial advisor is not available, you may contact the manager of the branch office or Client Services at 800-647-SERV (7378). If you use voice mail or e-mail, please do not leave orders or other time-sensitive messages.

Failure to apprise your financial advisor or, in the event he or she cannot be reached, Raymond James of an address change could, under state law, result in assets within an inactive account being surrendered to the state.

### **Communication from Our Firm**

Among the primary communication clients receive directly from our firm are trade confirmations; monthly, quarterly and/or year-end account statements – in hard copy and/or electronically online; notification of the availability of semi-annual statements reporting Raymond James & Associates' financial condition; and our quarterly newsletter, Financial Perspectives. Confirmations and statements should be retained as a record of your portfolio and its performance, and for future reference.

### **TRADE CONFIRMATIONS**

Any time a transaction is executed on your behalf through Raymond James (with the exception of direct orders placed by you with mutual funds that issue their own communications), you will receive a trade confirmation notice. This is not a bill. Rather, it is a report to you of what transpired. If you receive online copies of your trade confirmations through Raymond James Investor Access, your confirmation will be posted the day following the trade date. For those who receive hard copies of their confirmations, in most cases, we are able to mail the confirmation within 24 hours of the transaction; however, your receipt of it depends on the U.S. Postal Service's delivery schedule.

While it is rare that a client does not receive a confirmation, securities industry regulation requires payment for a purchase by settlement date. Your financial advisor will also receive a confirmation for every transaction executed on behalf of your account. The confirmation shows all the pertinent information regarding the specific transaction, generally including a complete description of the security, commissions, accrued interest (if applicable) and the total amount of money involved in the transaction. Raymond James' confirmation is unique within the securities industry and will also advise you about your investment, including how it was executed and any risk factors that you should consider. In addition, it will provide such applicable information as yield to maturity, frequency of interest and/or dividend payments, accrued interest, bond ratings and call dates. For managed account clients, we offer the ability to choose between receiving confirmations following each trade, monthly or quarterly by contacting your financial advisor. The combined trade confirmation report eliminates the need to review transactions as asset managers execute them. You can select your method of managed account reporting by contacting your financial advisor. It is important that you review and understand these notices, which are three-hole punched so you can easily keep them for future reference and tax purposes. Any inaccuracies or questions regarding your confirmation should be promptly directed to your financial advisor. If the issue is not addressed, please contact the branch manager or our international headquarters, as discussed under "Conflict Resolution" on page 44.

#### ACCOUNT STATEMENTS

Client account statements, which include a complete, detailed report of your account, are mailed monthly if there has been activity in the account during that 30-day period. Quarterly statements are sent if there has been no activ-

ity during the previous 90-day period or if the account is an individual retirement account. Client statements are issued on a calendar month-end basis with the cut-off date being the last business day of the month. Statements are generally mailed within seven days of month-end. If you access your account information online through Raymond James Investor Access, your statement will be posted with your account information the day it would have otherwise been mailed to you. In addition, Raymond James Capital Access clients receive an annual summary "13th" month year-end statement summarizing all of their account activities for the previous year. Your statement will show any securities (stocks, bonds, etc.) and cash or margin balances we are holding on your behalf, as well as any transactions (trades, dividends and interest, cash receipts and disbursements, securities receipts, or withdrawals) executed since your last statement. For your convenience, you can link your accounts custodied at Raymond James & Associates so that you receive all of your account statements in one envelope under a comprehensive summary page. Each account will be reported in a separate column of the summary, providing you an overall total allocation for all accounts on the summary page. All linked accounts will receive statements on a monthly basis. To link your accounts, please contact your financial advisor.

#### COMPOSITE STATEMENT OF 1099 FORMS

The Composite Statement of 1099 Forms reflects your calendar year's income required to be reported to the Internal Revenue Service. These forms include information that Raymond James is required to report to the IRS, as well as information that you, the taxpayer, are required to report to the IRS. You can expect your composite statement to accurately report your income as of our mailing date of January 31. You can also anticipate notification on your composite

statement should you own a security that may require you to wait for additional information prior to filing your return. These forms should be retained for future reference.

**MUTUAL FUND CONSOLIDATED STATEMENTS**

Keeping track of mutual fund investments requires sorting through and studying separate fund statements when the positions are held directly at each fund. In order to determine the total value of your investment, you must manually integrate the mutual fund information with your Raymond James statement.

Raymond James can incorporate your mutual fund activity into your Raymond James statement when the positions are reflected in your brokerage account through a service known as 'networking.' Your mutual fund transactions and positions will be reported along with those of your stocks, bonds and other investments, and the tax reporting is done by Raymond James. You will receive one consolidated 1099 for all your securities, including the networked mutual

funds. All eligible mutual fund positions held at Raymond James are automatically networked.

Note: Some 529 Plan funds can be networked into the brokerage account. However, all reporting requirements remain the responsibility of the individual fund companies.

For more information on networking and on adding your mutual fund investments to your Raymond James account, please contact your financial advisor.

**ACCOUNT PROTECTION**

Raymond James & Associates is a member of the Securities Investor Protection Corporation (SIPC), which protects securities customers of its members up to \$500,000 (including \$250,000 for claims for cash). An explanatory brochure is available upon request, at SIPC.ORG or by calling 202-371-8300.

	<b>FDIC</b>	<b>SIPC</b>	<b>Excess SIPC</b>
<b>Covered Investments</b>	Bank deposits	Registered securities and cash	Registered securities and cash
<b>Available Coverage</b>	\$250,000 insurance limit per depositor per insured institution. You may qualify for more than \$250,000 in coverage if you own deposit accounts in different ownership categories. (See footnote under FDIC section.)	Generally protects SEC-registered securities to a maximum of \$500,000, including \$250,000 coverage for claims for cash	Once a customer's SIPC coverage limit is exhausted, excess SIPC provides an aggregate firm limit of \$750 million, including a sub-limit of \$1.9 million per customer for cash above basic SIPC for the wrongful abstraction of customer funds.
<b>Regulator/Licenser</b>	Federal Deposit Insurance Corporation (FDIC)	U.S. Securities and Exchange Commission	Financial Services Authority (FSA), the independent regulator of the financial services industry in the United Kingdom.

\*The deposit insurance coverage limits refer to the total of all deposits that an account holder (or account holders) has at each FDIC-insured bank.

Raymond James has purchased excess SIPC coverage through various syndicates of Lloyd's, a London-based firm. Excess SIPC is fully protected by the Lloyd's trust funds and Lloyd's Central Fund. The additional protection currently provided has an aggregate firm limit of \$750 million, including a sub-limit of \$1.9 million per customer for cash above basic SIPC for the wrongful abstraction of customer funds.

Account protection applies when a SIPC-member firm fails financially and is unable to meet obligations to securities clients, but it does not protect against market fluctuations.

It is important to note that balances and products such as certificates of deposit (CDs) held at Raymond James Bank are covered by the Federal Deposit Insurance Corporation (FDIC), subject to FDIC rules and aggregation limits, but not by SIPC or excess SIPC. FDIC is an independent agency of the U.S. government that insures bank-held assets up to a maximum of \$250,000\* per depositor (\$250,000 for IRAs and certain other retirement accounts), including principal and accrued interest. For purposes of calculating the \$250,000 limit (\$250,000 for IRAs and certain other retirement accounts), you would aggregate any accounts, deposits and products you maintain in the same capacity directly with Raymond James Bank with any accounts, deposits and products you maintain at Raymond James Bank through another intermediary such as Raymond James.

You are responsible for monitoring the total amount of such deposits at Raymond James Bank in order to determine the extent of insurance coverage available to you. Neither Raymond James nor any of its affiliates are responsible for any insured or uninsured portion of your deposits or CDs.

Further information on FDIC insurance can be obtained from your financial advisor, who will provide you the FDIC brochure entitled, Your Insured Deposits, FDIC's Guide

to Deposit Insurance Coverage, upon request. You can also obtain information by contacting the FDIC, Division of Supervision and Consumer Protection, at Deposit Insurance Outreach, 550 17th Street N.W., Washington, DC 20429. The telephone number is 877-275-3342 or 800-925-4618 (TDD). You may also reach FDIC at its website at FDIC.GOV or by e-mail at [dcainternet@fdic.gov](mailto:dcainternet@fdic.gov). You may also wish to consult with your own attorney concerning FDIC coverage of deposits, particularly when held in more than one capacity.

## TRADING

### Placing Trades

Once your trade is placed, we will do our best to execute the transaction at the best available price. Smaller trades are generally executed via automated systems at the best available price.

You can place a trade by contacting your financial advisor or his or her licensed service associate. Please be specific and carefully explain your instructions. Ask the person to whom you are speaking if he or she will read back your instructions for verification. Then, once you receive your report confirming your trade (online the day following the trade or in hard copy within a few business days of the trade), read it carefully to ensure that your instructions were carried out. If they were not, please contact your financial advisor immediately.

Raymond James or your financial advisor may combine sale and purchase orders of securities held by them with similar orders being made simultaneously for other accounts if, in our reasonable judgment, such aggregation is likely to result in an overall economic benefit to the client based on an evaluation that the client will benefit from relatively better purchase or sale prices, lower commission expenses or beneficial timing of transactions, or a combination of



these and other potential benefits. Such transactions may be made at slightly different prices, due to the volume of securities purchased or sold. In such an event, the average price of all securities purchased or sold in such transactions may be determined and the client may receive the average transaction price.

An “average price” per share is reported when multiple executions were required to complete your order and is a calculated average of the prices of each individual execution. Details regarding the actual price of each execution are available upon request. Although multiple executions were necessary, no additional fees or commissions were charged.

We are committed to ensuring that you receive the best trade execution available in the marketplace at the time an order is received. Please consult your financial advisor for further details.

#### **Extended-Hours Trading**

While certain securities can be traded through Raymond James after hours, from 4 p.m. to 9:30 a.m. (ET), investors may assume increased risk due to what may be larger than normal spreads. Before entering into after-hours trading, you are advised to consult with your financial advisor for a more complete understanding of the process, including risk factors. Additional details related to extended-hours trading can be found at [raymondjames.com/disclosure\\_extended\\_hours\\_trading.htm](http://raymondjames.com/disclosure_extended_hours_trading.htm).

#### **Trade Date and Settlement Date**

The day on which your trade is executed is the “trade date,” while the day on which you must pay for a “buy” trade or on which you can expect to be paid for a “sell” trade is the “settlement date.” Securities regulations specify three business days from trade date to settlement date for most securities. This regulation – which our industry calls “T+3” – may not provide sufficient time for you to receive the confir-

mation of your transaction by regular mail and then to pay for a buy. You will need to either have funds on deposit with us or pay based on verbal confirmation of the trade. The vast majority of our clients keep cash balances on deposit with us in competitive interest-bearing accounts to settle trades automatically.

#### **Online Trading**

Raymond James Investor Access provides financial advisors the ability to offer their clients the opportunity to trade many investment alternatives online. Before trading online, it is important to understand how securities transactions are executed, particularly during times of volatile prices and high volume, when there may be delays.

#### **SWEEPS (TRANSFERS) TO AND FROM INCOME-PRODUCING ACCOUNTS**

Keeping your cash working hard for you is an important goal. We offer alternatives to keep your cash earning income when it is not otherwise invested. If you are purchasing an investment, the automatic sweep feature allows the exact amount of the transaction to be transferred to your investment account on settlement date, thereby eliminating the inconvenience otherwise involved with delivering funds. If you are selling an investment, the proceeds are automatically deposited to your account by the day following settlement date, enabling you to begin earning income on those funds until they are reinvested.

You should carefully consider the features and benefits of each of the available sweep options, including the applicable interest rate or estimated yield, before selecting one that is appropriate for your account.

#### **AMENDMENTS TO THE RAYMOND JAMES CASH SWEEP PROGRAMS**

Raymond James may modify or amend the Cash Sweep op-

tions and the terms of the Cash Sweeps Programs at any time in its sole discretion by providing 30 days' notice to you.

#### **RAYMOND JAMES BANK DEPOSIT PROGRAM**

With the Raymond James Bank Deposit Program, available cash in your Raymond James account is deposited into interest-bearing deposit accounts at up to 12 banks, providing eligibility for up to \$2.5 million in deposit insurance coverage (\$5 million for joint accounts of two or more) by the Federal Deposit Insurance Corporation (FDIC), subject to applicable limitations.

Raymond James will deposit up to \$245,000 (\$490,000 for joint accounts of two or more) in each bank on a predetermined Bank Priority List. Once \$2.5 million (\$5 million for joint accounts of two or more) in total has been deposited at the banks, or once the available banks reach their maximum deposit threshold for cash balances from the Bank Deposit Program, there are three options for depositing your excess funds, depending upon the sweep option you've selected.

- *Client Interest Program:* Excess cash will be directed to Raymond James' Client Interest Program, described below, allowing you to take advantage of FDIC insurance, and SIPC and excess SIPC coverage. Due to regulatory restrictions, this option is not available for custodial retirement accounts.
- *Eagle Class: JPMorgan US Government:* Excess cash will be directed to the Eagle Class - JPMorgan US Government fund, described below, allowing you to take advantage of FDIC insurance, and SIPC and excess SIPC coverage.
- *Excess Bank:* Excess funds will be directed to a designated "excess bank" without limit and without regard to maximum-available FDIC coverage.

Please see "Account Protection" on page 28 for more information about FDIC coverage. For more

information about the Bank Deposit Program, please see "Raymond James Bank Deposit Program Disclosures."

#### **CLIENT INTEREST PROGRAM (CIP)**

The Client Interest Program (CIP) is a short-term alternative for funds awaiting investment. As required by the U.S. Securities and Exchange Commission, Raymond James separates a significant portion of CIP funds held for the exclusive benefit of clients from funds used in the company's business operations. This portion of CIP funds are, by regulation, required to be placed in overnight repurchase agreements that are fully collateralized by U.S. Treasury securities or deposited in qualifying trust and/or cash accounts with major U.S. banks. The remaining balance is used in the company's business operations. CIP balances are included in the coverage provided by the Securities Investor Protection Corporation (SIPC) and excess SIPC. (Please see "Account Protection" for more information on page 28.)

#### **EAGLE CLASS OF JPMORGAN MONEY MARKET MUTUAL FUNDS**

Other sweep options include the Eagle Class of JPMorgan U.S. Government Money Market Fund, Eagle Class of JPMorgan Prime Money Market Fund and the Eagle Class of JPMorgan Tax Free Money Market Fund, which seeks to achieve income that is exempt from federal income tax. The minimum-required balance to participate in the automatic cash sweep program to these funds is \$1,000. Clients with balances less than \$50 in their money market accounts may periodically have their balances transferred to non-interest bearing cash positions. If the accounts subsequently reach \$1,000 in available cash, the cash will be swept back to the applicable money market funds. The \$50 balance transfer and \$1,000 minimum policies do not apply to qualified retirement accounts.

*Investment in the Eagle Class of JPMorgan money market funds is neither guaranteed nor insured by the FDIC or any other government agency, although such investments are generally eligible for coverage provided by SIPC and excess*

**Cash Sweep alternatives can be easily compared using the following table.**

Cash Alternative/ Feature	Bank Deposit Program <sup>1</sup> (with Excess Bank)	Client Interest Program <sup>1</sup> (CIP)	Eagle Class of JPMorgan U.S. Government Money Market Fund <sup>1</sup>	Eagle Class of JPMorgan Tax Free Money Market Fund	Eagle Class of JPMorgan Prime Money Market Fund	Raymond James Bank with Check Writing
Description	Available cash in your Raymond James account is deposited into interest-bearing accounts at up to 12 banks.	The Client Interest Program (CIP) is a short-term alternative for client cash that is held for future investment.	Money market fund that seeks high current income with liquidity and stability of principal. The fund invests exclusively in high-quality, short-term securities that are issued or guaranteed by the U.S. government or by U.S. government agencies and instrumentalities	Money market mutual fund that aims to provide the highest possible level of current income, which is excluded from gross income, while still preserving capital and maintaining liquidity	Taxable money market mutual fund that aims to provide the highest possible level of current income while still maintaining liquidity and preserving capital	Standard bank money market deposit account with check writing (retirement accounts only)
Current Rate/ Yield	See <a href="http://RAYMONDJAMES.COM/RATES.HTM">RAYMONDJAMES.COM/RATES.HTM</a>					
Rate/Yield Calculation Method and Frequency	Based on relevant competitive money market rates and various market factors. Rate set periodically.	Based on relevant competitive money market rates and various market factors. Rate set periodically.	Based on yield of underlying investment less expenses of managing the fund. Yield calculated daily.	Based on yield of underlying investment less expenses of managing the fund. Yield calculated daily.	Based on yield of underlying investment less expenses of managing the fund. Yield calculated daily.	Based on relevant competitive money market rates and various market factors. Rate set periodically.
Rate/Yield	For balances of less than \$5,000: standard rate; \$5,000 or more: standard or premium rate, based on assets	For balances of less than \$5,000: standard rate; \$5,000 or more: standard or premium rate, based on assets	\$1,000 required to establish (minimum waived for ERISA and IRA accounts)	\$1,000 required to establish (not available for ERISA and IRA accounts)	\$1,000 required to establish (minimum waived for ERISA and IRA accounts)	For balances of \$5,000 or more: standard rate less than \$5,000: standard rate less approximately 1.5%
Insurance Type	FDIC	SIPC and excess SIPC	SIPC and excess SIPC	SIPC and excess SIPC	SIPC and excess SIPC	FDIC
Coverage Amounts	Up to \$2.5 million for individual accounts (\$5 million for joint accounts) <sup>2</sup>	Up to \$250,000 for basic SIPC and \$1.9 million for excess SIPC <sup>3</sup>	Up to \$500,000 for basic SIPC and up to a firm aggregate of \$750 million for excess SIPC <sup>3</sup>	Up to \$500,000 for basic SIPC and up to a firm aggregate of \$750 million for excess SIPC <sup>3</sup>	Up to \$500,000 for basic SIPC and up to a firm aggregate of \$750 million for excess SIPC <sup>3</sup>	Up to \$250,000 for individual accounts (\$500,000 for joint accounts)
Availability of Funds	Same day	Same day	Same day with 3 p.m. cut-off	Same day with 3 p.m. cut-off	Same day with 3 p.m. cut-off	Next day
Check Writing Available	Through Capital Access only	Through Capital Access only	Through Capital Access only	Through Capital Access only	Through Capital Access only	Yes, limited by regulation to six checks per month
Automated Clearing House (ACH) Available	Yes	Yes	Yes	Yes	Yes	Yes <sup>4</sup>
More Information	See <a href="http://RAYMONDJAMES.COM/RATES.HTM">RAYMONDJAMES.COM/RATES.HTM</a>					

<sup>1</sup>In order to offer you additional protection, Raymond James also offers two combination sweep options:

- Bank Deposit Program with Client Interest Program
- Bank Deposit Program with Eagle Class of JPMorgan U.S. Government

Each of these sweep options combines the associated features listed in the columns above. Balances are first deposited into the Bank Deposit Program for FDIC insurance coverage. Uninsured cash balances then go to the Client Interest Program or Eagle Class of JPMorgan U.S. Government, respectively, for SIPC and excess SIPC insurance coverage.

<sup>2</sup>FDIC insurance covers up to \$250,000 per bank, per depositor, per FDIC ownership category. For each ownership category, the Raymond James Bank Deposit Program covers up to \$2.5 million in cash (joint accounts up to \$5 million). Raymond James Bank with Check Writing covers up to \$250,000 per depositor. Refer to [FDIC.gov](http://FDIC.gov) for a full description of ownership categories and coverage limits when clients have multiple accounts with the same firm.

<sup>3</sup>SIPC coverage is up to \$250,000 for claims for cash. Once a customer's SIPC coverage limit is exhausted, excess SIPC provides an aggregate firm limit of \$750 million, including a sub-limit of \$1.9 million per customer for cash above basic SIPC for the wrongful abstraction of customer funds. SIPC and excess SIPC protection of customers with multiple accounts is determined by "separate capacity." Refer to [SIPC.org](http://SIPC.org) for a full description of coverage limits when clients have multiple accounts with the same firm.

<sup>4</sup>Raymond James Bank money market deposit accounts are limited by federal regulations to no more than six withdrawals per month, including Automated Clearing House (ACH), checks and point-of-sale transactions

Please note: The process of converting an existing Raymond James account from one sweep alternative to another sweep alternative may result in a loss of dividend/interest for a period of one to two days. The duration depends specifically on the existing sweep option and the new alternative selected.

*SIPC. (Please see "Account Protection" on page 28.) While these funds seek to preserve the value of your investment at \$1 per share, it is possible to lose money by investing in the funds. Investors should carefully consider the investment objectives, risks, charges and expenses of the Eagle Class of JPMorgan money market funds before investing. The prospectus contains this and other information about these funds. The prospectus is available from your financial advisor and should be read carefully before investing.*

Cash management features are available for all of the above sweep options through the Capital Access Account. These features include check writing, debit cards, online bill payment and ACH. For more information regarding Capital Access, please contact your financial advisor.

#### **RAYMOND JAMES BANK WITH CHECK WRITING**

Available only to clients who have retirement accounts with check writing capabilities, this sweep option allows for cash to be transferred to and from your investment account to an individually named account held directly at Raymond James Bank. The balances held in individual named accounts at the bank are also FDIC-insured in accordance with FDIC rules and aggregation limits. (Please see "Account Protection" for more information on page 28.)

#### **RAYMOND JAMES BANK DEPOSIT PROGRAM DISCLOSURES**

Through the Raymond James Bank Deposit Program, available cash in your Raymond James account is deposited into interest-bearing deposit accounts at one or more banks set forth on a priority list, as described below.

##### **How the Bank Deposit Program Works**

*Deposit Procedures* – When funds are first available for deposit, Raymond James, as your agent, will open a Money Market Deposit Account (MMDA) and a linked Transaction Account (TA) on your behalf at one or more banks, as set

forth on the then-current priority list in the order set forth on the priority list. Once your funds in the deposit accounts at a bank reach the applicable deposit limit of \$245,000 (\$490,000 for joint accounts of two or more), or once the bank reaches its deposit threshold for cash balances from the Bank Deposit Program, Raymond James, as your agent, will open an MMDA and TA for you at the next bank on the priority list and place your additional funds in that bank. Following this process, your funds will be swept into deposit accounts at up to 12 banks, providing eligibility for up to \$2.5 million in deposit insurance coverage by the FDIC (\$5 million for joint accounts of two or more), subject to applicable limitations.

Each bank on the priority list has a maximum deposit capacity, or "deposit threshold," that designates the maximum dollar value the bank will accept as deposits associated with the Bank Deposit Program. In the event that you have deposits equal to the applicable FDIC deposit limit – and/or the bank has reached its deposit threshold – at each of the available banks on the priority list, additional funds will be directed, according to your cash sweep program election, to either the Client Interest Program, which is protected by the Securities Investor Protection Corporation (SIPC) and excess SIPC, or to a designated "excess bank" without limit and without regard to maximum-available FDIC insurance coverage.

*Withdrawal Procedures* – As necessary to satisfy withdrawals, funds will be transferred from your MMDA to the related TA at each bank and withdrawals will be made from the TA. The bank and Raymond James, in their discretion, may determine a minimum, or "threshold," amount to be maintained in your TA to satisfy debits in your Raymond James account.

Federal banking regulations limit the transfers from an MMDA to a total of six (6) during a monthly statement cycle. At any point during a month in which transfers from an MMDA at a bank have reached the applicable limit, all funds will be transferred from that MMDA to the linked TA at the



bank until the end of the month. Deposits for the remainder of the month into this bank will be made to the TA. At the beginning of the next month, funds on deposit in the TA will be transferred to the MMDA, minus any threshold amount to be maintained in the TA. The limits on MMDA transfers will not limit the number of withdrawals you can make from funds on deposit at a bank or the amount of FDIC insurance coverage for which you are eligible.

*Interest* – The Raymond James standard rate will apply to accounts with a cash balance of less than \$5,000. Accounts with \$5,000 or more in cash may receive a premium rate based on their household relationship asset value. Rates are posted daily on Raymond James' website at [raymondjames.com/rates.htm](http://raymondjames.com/rates.htm) and are also available by contacting your financial advisor. Your interest rate may change as often as daily depending on the balance held in your Raymond James account.

Interest will accrue on deposit account balances from the day funds are deposited into the deposit accounts at a bank through the business day preceding the date of withdrawal from the deposit accounts at the bank. Interest will be compounded daily and credited monthly.

Your MMDA and TA at each bank will earn the same interest rate and all banks will pay the same interest rate. The interest rates on the deposit accounts will be determined by the amount the banks are willing to pay on the deposit accounts minus the fees paid to Raymond James and other parties as set forth below under "Fees." Interest rates on the deposit accounts will vary based upon prevailing economic and business conditions. The banks do not have a duty to offer the highest rates available. The interest rates paid with respect to the deposit accounts at a bank may be higher or lower than the interest rates available to depositors making deposits directly with the bank or other depository institutions in comparable accounts and

for other sweep alternatives. You should compare the terms, interest rates, required minimum amounts and other features of the Bank Deposit Program with other accounts and alternative investments.

For most clients, interest earned from the deposit accounts will be taxed as ordinary income in the year it is received. Form 1099 will be sent to you each year showing the amount of interest income you have earned in your deposit accounts. You should consult with your tax advisor about how the deposit account sweep affects you.

*Reporting* – You will not receive trade confirmations. All transactions in your deposit accounts will be confirmed on your Raymond James account statement.

For each statement period, your Raymond James account statement will reflect:

- All deposits to and withdrawals from your deposit accounts,
- The opening and closing balances of the deposit accounts at each bank,
- The interest rate and interest earned on deposit account balances, and
- The list of banks you declined to receive your funds.

Your financial advisor can assist you in understanding your Raymond James account statement. Responsibility for the accuracy of your statement is Raymond James', not the priority list banks.'

#### **Bank Priority List**

Raymond James establishes contracts with multiple banks, which are included in one or more Bank Priority Lists. The priority list of available banks into which your funds may be deposited is based on your account's legal address of record. The current Bank Priority Lists are available at [raymondjames.com/rjbdp](http://raymondjames.com/rjbdp) or from your financial advisor.

Each priority list includes one or more designated “excess banks,” which will accept funds without limit and without regard to maximum-available FDIC coverage for clients who have chosen to have excess funds directed to an excess bank. If all of your funds are withdrawn from an excess bank, your funds may be deposited in a different excess bank the next time your funds are available for deposit in an excess bank.

For clients who have chosen to have excess funds directed to the Client Interest Program (CIP), if all banks on the priority list have received your funds up to the applicable FDIC deposit limit and/or the banks have reached their deposit thresholds, your next available funds will be deposited in CIP and covered by SIPC and excess SIPC insurance, not FDIC.

For clients who have chosen to have excess funds directed to the Eagle Class - JPMorgan US Government fund, if all banks on the priority list have received your funds up to the applicable FDIC deposit limit and/or the banks have reached their deposit thresholds, your next available funds will be deposited in the Eagle Class - JPMorgan US Government fund and covered by SIPC and excess SIPC insurance, not FDIC.

*Excluding Priority List Banks* – You should review the Bank Priority List carefully. While you may not change the order of the banks on the priority list, you may, at any time, designate a bank, including any excess bank, as ineligible to receive your funds. This will result in your funds being deposited into deposit accounts at the next bank on the priority list.

In addition, you may at any time instruct us to remove your funds from a bank, close your deposit accounts with the bank and designate the bank as ineligible to receive future deposits. Unless you direct us to place your funds in a different investment, your funds from a closed deposit account will be deposited in deposit accounts at the first available bank set forth on the priority list, as amended by you.

You may not designate all of the excess banks as ineligible to receive your funds. If you wish to designate a bank as ineligible to receive your funds, please contact your financial advisor. The list of ineligible banks will be displayed on your Raymond James account statement as “Participating banks you declined.”

*Changes to the Bank Priority List* – The Bank Priority List may change at any time. One or more of the banks included on the priority list may be replaced with a bank not previously included on the priority list, a bank may be added to or deleted from the priority list, or the order of banks on the priority list may change. When a new bank is added to the program, the priority lists available at [raymondjames.com/rjbdp](http://raymondjames.com/rjbdp) are updated, and the bank will be listed under “Participating banks recently added” in your next Raymond James account statement. If a bank at which you have deposit accounts discontinues participation in the Bank Deposit Program, your funds will be transferred to the next available bank on the priority list.

#### **Your Relationship with Raymond James and the Priority List Banks**

*Relationship with Raymond James* – Raymond James is acting as your agent in establishing the deposit accounts at each bank, depositing funds into the deposit accounts, withdrawing funds from the deposit accounts and transferring funds among the deposit accounts. Deposit account ownership will be evidenced by a book entry on the account records of each bank and by records maintained by Raymond James as your custodian. No evidence of ownership, such as a passbook or certificate, will be issued to you. Your brokerage account statements will reflect the balances in your deposit accounts at the banks. You should retain your brokerage account statements for your records. You may at any time obtain information about your deposit accounts by contacting your financial advisor.

Unless you establish the deposit accounts directly with a bank as described below, all transactions with respect to your deposit accounts must be directed by Raymond James and all information concerning your deposit accounts can only be obtained from Raymond James. The banks have no obligation to accept instructions from you with respect to your deposit accounts or to provide you information concerning your deposit accounts.

Raymond James may, in its sole discretion, terminate your use of the deposit accounts as a sweep investment option. If Raymond James terminates your use of the deposit accounts as a sweep investment option, you may establish a direct depository relationship with each bank, subject to their rules with respect to maintaining deposit accounts.

Similarly, if you decide to terminate your participation in the Bank Deposit Program, you may establish a direct relationship with each bank by requesting to have your deposit accounts established in your name at each bank, subject to each bank's rules with respect to establishing and maintaining deposit accounts.

Establishing your deposit accounts in your name at a bank will separate the deposit accounts from your Raymond James account. Your deposit account balances will no longer be reflected in your Raymond James account statement and Raymond James will have no further responsibility concerning your deposit accounts.

*Relationship with the Priority List Banks* – You will not have a direct account relationship with the banks on the priority list: Raymond James, as your agent, will establish the deposit accounts for you at each bank and make deposits to and withdrawals from the deposit accounts. However, each deposit account constitutes an obligation of a bank and is not directly or indirectly an obligation of Raymond James. You can obtain publicly available financial information about

each bank at [ffiec.gov/nic](http://ffiec.gov/nic) or by contacting the FDIC Public Information Center by mail at L. William Seidman Center, Virginia Square, 3501 North Fairfax Drive, Arlington, VA 22226 or by phone at 703-562-2200. Raymond James does not guarantee in any way the financial condition of the banks or the accuracy of any publicly available financial information about the banks.

*Fees* – Each bank, except Raymond James Bank, will pay Raymond James a fee equal to a percentage of the average daily deposit balance in your deposit accounts at the bank. The fee paid to Raymond James may be an annual rate of up to an average of 2% as applied across all deposit accounts taken in aggregate. In its discretion, Raymond James may reduce its fee and may vary the amount of the reductions between clients. The fee may vary from bank to bank. The amount of the fee received by Raymond James will affect the interest rate paid on your deposit accounts. Raymond James Bank will pay Raymond James a fixed fee per account.

In addition, other service providers will receive fees from each bank and your financial advisor may receive a portion of the fee paid to Raymond James by the banks. Other than the applicable fees imposed on your brokerage account, there will be no charges, fees or commissions imposed on your brokerage account with respect to deposit accounts at the priority list banks.

Upon request, Raymond James will provide you information about Raymond James's compensation arrangements with respect to its sweep investments.

#### **Insurance Coverage**

Any deposits (including certificates of deposit) that you maintain in the same capacity directly with a bank, or through an intermediary (such as Raymond James or another broker), will be aggregated with deposits in your deposit

accounts at the bank for purposes of the maximum applicable deposit insurance amount (up to \$250,000 per depositor; visit FDIC.GOV for more information). You are responsible for monitoring the total amount of deposits that you have with each bank, including an excess bank (described in the “Bank Priority List” section of this disclosure), in order to determine the extent of FDIC deposit insurance coverage available to you.

The information provided in this disclosure applies, unless otherwise indicated, to each Raymond James account for which you are a client of record, whether as an individual, joint tenant, trustee, executor, custodian or in any other capacity, and is furnished to you in each of such capacities in respect of all such accounts. Further information about FDIC insurance, as well as SIPC and excess SIPC, is available in the “Your Account Is Protected” section or through your financial advisor.

## **SERVICING YOUR ACCOUNTS**

### **TRANSFERRING YOUR ACCOUNT TO RAYMOND JAMES**

Raymond James helps clients expedite the transfer of securities by offering advice and assistance, identifying the forms required by the appropriate transfer agents, and facilitating the transfer of any security for legal or estate purposes. Clients are assured that their transactions are handled from start to finish as swiftly, efficiently and professionally as we can arrange.

#### **Compensation to Transferring Financial Advisors**

Periodically, when a financial advisor transfers from one firm to another, he or she may receive compensation from his or her new firm. The “up front bonus” transition allowance or other incentive compensation is designed to offset the initial loss of income resulting from client accounts that may not choose to transfer to the new firm and for time spent re-establishing his or her practice at the new firm, as

well as to induce financial advisors to change firms.

### **THE BENEFITS OF STREET NAME ACCOUNTS**

By having securities held in “street name” through Raymond James & Associates, your recordkeeping can be simplified and your responsibility to deliver sold securities eliminated. Additionally, all dividends and interest payments are made directly to Raymond James & Associates and promptly credited to your account for reinvestment or your personal use, while the proceeds of sales are promptly and automatically credited to your account.

All securities held in street name by Raymond James, along with all activities related to those securities, are reported on your Raymond James client statement. Added conveniences include the ability to make one address change to Raymond James rather than notifying separate transfer agents for each security, ease in transferring securities to heirs by completing a single copy of the required documents and access to the loan potential of your eligible portfolio through our margin program.

### **CREDITING CHECKS TO AN ACCOUNT**

All checks – except cashier’s checks, traveler’s checks and money orders – deposited with Raymond James are subject to a minimum two-day hold. All deposits processed through the ATM (automated teller machine) network are subject to a two-day minimum hold. Certain checks, based upon size, account history and other factors, may be held up to 10 business days. Credit card or line of credit checks are subject to a 20-business-day hold. With the exception of foreign checks, all checks begin to earn interest after two business days.

Foreign checks, including those from Canadian banks, are not accepted for payment of a trade and are not credited to a client’s account until funds are received by Raymond James & Associates. This may take one to six weeks. Please always make your checks payable to Raymond James & Associates



and include your account number. Financial advisors are required to have clients make checks payable to the firm. Do not make checks payable to a financial advisor or any other entity, as we cannot be responsible for these funds.

### **SPEEDY ACCESS TO YOUR DIVIDENDS AND INTEREST PAYMENTS**

While dividend and interest payments are credited to client accounts on the declared payment date, clients do have choices as to how they receive those payments.

Currently, many clients choose to receive dividend and interest payments by check or direct deposit to their bank accounts through the Automated Clearing House. Most prefer to have the payments automatically sweep into an interest-bearing account, which eliminates the need to cash checks or deliver them to another institution for deposit. It also eliminates possible delays due to “holds” placed on the funds when the checks are deposited in another institution and delays due to the postal service. In addition, by sweeping, clients begin earning competitive rates of interest on their payments immediately. Each interest and dividend payment and subsequent sweep is also automatically reported on the client’s account statement.

While funds are immediately available when credited, checks are processed and mailed by Raymond James each Friday. Those checks include all dividend and interest payments credited to an account during the previous week and are sent if total payments exceed \$100 or they will accumulate in the client’s account until the \$100 threshold is reached, at which time a check will be issued. Clients who receive dividend and interest payments by check will receive a breakdown of the payments included on each check.

Your financial advisor can assist you in selecting the best method for you to access your interest and dividends.

#### **The Dividend Reinvestment Alternative**

For investors who would like to automatically buy additional

shares of the underlying stock with each cash dividend, we offer a dividend reinvestment program. The option is available on most equity and closed-end fund shares traded on the New York Stock Exchange, the American Stock Exchange or the National Market System of the NASDAQ.

The program is offered free of charge on an unlimited number of securities. Benefits include consolidation of assets, estate simplification and loan eligibility. Street name dividend reinvestment offers ease of liquidation of all full and fractional shares with one simple instruction to your financial advisor. No lengthy and cumbersome interaction with various agents is required.

#### **YOUR RIGHTS AS A SHAREHOLDER**

Through investments in individual stocks and mutual funds, you become a shareholder, or an owner in a business with a voice in how that business is run. As a shareholder, you have the right to all financial reports issued by that company as well as the right to vote – either in person or by proxy – and speak at the annual meeting. You also have the right to call the company at any time to ask questions. Whether you hold the certificates or we keep them for you in “street name,” you maintain the same rights.

#### **THE PITFALLS OF PENNY STOCKS**

As a rule, we will not execute purchases for stocks under \$2 per share, unless that stock is traded on a major stock exchange or the NASDAQ system. Our reason is simple. In almost all cases, adequate financial information is available on stocks that trade on an exchange or NASDAQ, facilitating analysis of the security prior to purchase. Stocks that are trading under \$2 per share and are not listed on an exchange or NASDAQ generally are riskier, as the companies are smaller and do not necessarily have the same reporting requirements as listed stocks.

#### **UNDERSTANDING THE OTC MARKET**

The volume of orders in over-the-counter stocks has

increased dramatically as most U.S. securities trade in that market. However, not understanding some basics of the OTC market can cause problems for investors.

Because most of these are smaller companies, their market capitalizations are generally smaller and the stocks are less liquid, creating a larger spread between the stock's bid and ask prices. Furthermore, it will take longer to get pricing reports, as market makers often only make 100-share markets before changing their bid and ask. As a result, even a market order at a market opening might take a long time to execute at a series of prices, which would not happen in a large company stock listed on an exchange.

### **CONFLICT RESOLUTION**

Almost all client complaints are resolved quickly as a result of discussions with financial advisors or other associates at our firm. However, experience indicates that some misunderstandings can and will occur. A client's first communication should be directed to his or her financial advisor. In the event that satisfaction is not promptly received at that level, the branch manager should then be contacted.

If the client is still dissatisfied, he or she should contact our international headquarters. In the case of Raymond James & Associates, clients should contact Client Services at 800-647-SERV (7378) for operational problems dealing with confirmations, statements, deliveries, etc. If the problem deals with an investment or unsatisfactory service from an associate of the company, inquiries should be directed to the Compliance Department at 800-248-8863 or 880 Carillon Parkway, St. Petersburg, FL 33716.

For clients of Raymond James Financial Services, international headquarters inquiries should be directed to the Raymond James Financial Services Compliance Department at 800-248-8863, ext. 73016 or 880 Carillon Parkway, St.

Petersburg, FL 33716.

Our headquarters is open weekdays, with the exception of national holidays when the stock market is closed, from 8:30 a.m. to 5:30 p.m. ET.

### **THE PATRIOT ACT**

Under the USA Patriot Act, Raymond James is required to set up an anti-money-laundering program, designate a special compliance officer, set up employee training, conduct independent audits, and establish policies and procedures to detect and report suspicious transactions and ensure compliance with the law. As part of our required program, we may ask you to provide various identification documents or other information in order to comply with this law. Until you provide the information or documents we need, we may not be able to open an account or effect any transactions for you.

### **ENSURE YOUR ACCOUNT INFORMATION IS UP-TO-DATE**

While laws governing unclaimed or abandoned property vary by state, Raymond James must remit client property to state authorities if an account has been inactive for a specified period and we are unable to make contact with the account owner. For this reason and to help ensure the confidentiality of your accounts, please be sure to inform your financial advisor of any changes to your personal information, including your correct addresses.

If you need to make changes to your account, please contact your financial advisor or Client Services at 800-647-SERV (7378) to provide your current address information so that we may update our records.

### **STATEMENT OF CREDIT DISCLOSURE**

#### **Cash accounts**

Cash accounts may be subject, at Raymond James & Asso-

ciates' discretion, to interest on any debit balances resulting from failure to make payment in full for securities purchased, from proceeds of sales paid prior to settlement date or for other charges that may be made to the account.

**Margin accounts**

Purchases of securities on credit, commonly known as margin purchases, enable you to increase the buying power of your equity and thus increase the potential for profit or loss. A portion of the purchase price is deposited when buying securities on margin, and Raymond James & Associates extends credit for the remainder. This loan appears as a debit balance on your monthly statement of account. Raymond James & Associates charges interest on the debit balance and requires you to maintain securities, cash or other property to secure repayment of funds advanced.

Interest will be charged for any credit extended to you for the purpose of buying, trading or carrying any securities, for any cash withdrawals made against the collateral of securities, or for any other extension of credit. When funds are paid in advance of settlement on the sale of securities, interest will be charged on such amount from date of payment until settlement date. In the event that any other charge is made to the account for any reason, interest may be charged on the resulting debit balances.

**Interest rates**

Interest charged on any debit balances in cash accounts or credit extended in margin accounts may be up to 2.75 percentage points above the Raymond James & Associates Base Lending Rate. The Raymond James & Associates Base Lending Rate will be set with reference to commercially recognized interest rates, industry conditions relating to the extension of credit and general credit market conditions. The Raymond James & Associates Base Lending Rate may change without prior notice. When the Raymond James & Associates Base Lending Rate changes during an interest period, interest will be calculated according to the number of days each rate is in effect during that period. If the rate of

interest charged to you is changed for any other reason, you will be notified at least 30 days in advance.

**Interest period**

Margin interest will post to your account on the last business day of the month. The interest period begins on the prior month's posting date and ends the day before the last business day of the month.

**Method of interest computation**

At the close of each interest period during which credit was extended to you, an interest charge is computed by multiplying the average daily debit balance by the applicable schedule rate and by the number of days during which a debit balance was outstanding and then dividing by 360. If there has been a change in the Raymond James & Associates Base Lending Rate, separate computations will be made with respect to each rate of charge for the appropriate number of days at each rate during the interest period. The interest charge for credit made to your account at the close of the interest period is added to the opening debit balance for the next interest period unless paid. Raymond James & Associates Base Lending Rate agreements are governed by the laws of the state of Florida.

If there is a credit in the cash account and there is a debit in the margin account, interest will be calculated on the resulting net balance.

If the security you sold short (or sold short against the box) appreciates in market price over the selling price, interest will be charged on the appreciation in value. Correspondingly, if the security you sold depreciates in market price, the interest charged will be reduced since your average debit balance will decline. This practice is known as "marking to the market." The daily closing price is used to determine any appreciation or depreciation of the security sold short.

If your account is short shares of stock on the record date of a dividend or other distribution, however such short posi-

tion occurs, your account will be charged the amount of the dividend or other distribution on the following business day.

### **General Margin Policies**

The amount of credit that may be extended by Raymond James & Associates and the terms of such extension are governed by rules of the Federal Reserve Board and the Financial Industry Regulatory Authority. Within the guidelines of these rules and subject to adjustment required by changes in such rules and our business judgment, Raymond James & Associates establishes certain policies with respect to margin accounts. If the market value of securities in a margin account declines, Raymond James & Associates may require the deposit of additional collateral. Margin account equity is the current market value of securities and cash deposited as security, less the amount owed Raymond James & Associates for credit extended. It is our general policy to require margin account holders to maintain equity in their margin accounts of the greater of 30% of current market value or \$3 per share for the common stock purchased on margin. Raymond James & Associates applies other standards for other types of securities. For example, securities valued at \$5 per share or less may not be purchased using margin except under exceptional circumstances. The granting of approval for purchases of securities under \$5 in the margin account will be at Raymond James & Associates' sole discretion. Also certain securities may be ineligible for margin credit from time to time. For information with respect to general margin maintenance policy as to municipal bonds, corporate bonds, listed U.S. Treasury notes and bonds, and other securities for margin credit, please contact Raymond James

Financial Services.

Notwithstanding the above general policies, Raymond James & Associates reserves the right, at its discretion, to require the deposit of additional collateral and to set required margin at a higher or lower amount with respect to particular accounts or classes of accounts as it deems necessary. In making these determinations, Raymond James & Associates may take into account various factors, including the size of the account, liquidity of position, unusual concentrations of securities in an account or a decline in creditworthiness. If you fail to meet a margin call in a timely manner, some or all of your positions may be liquidated by Raymond James & Associates without prior notification.

### **Deposits of collateral, lien on accounts and liquidation**

In the event that additional collateral is requested, you may deposit cash or acceptable securities into your margin account. If satisfactory collateral is not promptly deposited after a request is made, Raymond James & Associates may, at its discretion, liquidate securities held in any of your accounts. In this connection, pursuant to our Margin Agreement, Raymond James & Associates retains a security interest in all securities and other property held in your accounts, including securities held for safekeeping, so long as any credit extended remains outstanding.



# RAYMOND JAMES®

INTERNATIONAL HEADQUARTERS: THE RAYMOND JAMES FINANCIAL CENTER

880 CARILLON PARKWAY // ST. PETERSBURG, FL 33716 // 800.248.8863

[RAYMONDJAMES.COM](http://RAYMONDJAMES.COM)