



ARETE WEALTH ADVISORS, LLC

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

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This wrap fee program brochure provides information about the qualifications and business practices of Arete Wealth Advisors, LLC. If you have any questions about the contents of this brochure, please contact us at (312) 940-3684. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any state securities authority.

Additional information about us may be found at the SEC's website, [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2 – **Material Changes**

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## Item 3 – **Table of Contents**

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Item 2 – Material Changes .....	2
Item 3 – Table of Contents .....	2
Item 4 – Services, Fees and Compensation.....	3
Item 5 – Account Requirements and Types of Clients.....	5
Item 6 – Advisor Selection and Evaluation.....	5
Item 7 – Client Information Provided to Advisors.....	9
Item 8 – Client Contact with Advisors.....	9
Item 9 – Additional Information .....	10

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

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### **Services**

Arete Wealth Advisors, LLC ("we," "us," "Advisor" or "Arete") has offered professional asset management services since it was formed in 2007.<sup>1</sup> We have been registered with the SEC since January 2009.

We provide continuous investment management services to clients of our wrap fee program (the "Program"), which include individuals, pension and profit sharing plans, trusts, estates, charitable organizations and other corporate or business organizations. Our portfolio management services are based on the client's goals, objectives, time horizon, and risk tolerance. Our investment management services include investment strategy and policy formulation, asset allocation and selection, and regular and continuous portfolio monitoring.

We evaluate the current investments of each client with respect to the client's risk tolerance levels and time horizon. We typically request discretionary authority from clients in order to select securities and execute transactions without permission from the client prior to each transaction.

### **Fees**

For our services, Program clients pay us one asset-based "wrap fee" (the "Program Fee") that covers certain costs of the Program, including investment advice, execution and clearing of transactions, custody of assets and record-keeping services. Certain other costs, as described below, are not covered by the Program Fee.

The amount of your Program Fee may vary based on account size or other factors, and in some cases, it may be negotiable. We may charge you an annual Program Fee of up to 3.0% of the assets we manage for you under the Program. The Program Fee is generally payable monthly in arrears but some advisors have elected to charge the Program Fee in advance. We typically allocate 90% of the Program Fee you pay to the persons responsible for managing your account (each, a "Advisor"). Additionally, depending on the account, there may be some assets in your account for which no Program Fee is charged. Your Program Fee is specified in your agreement with us.

The Program may cost you more or less than purchasing advisory and ancillary services separately, depending on a number of factors. Such factors include, but are not limited to, the amount of trading activity in your account, the size of your account, and the actual cost of services if provided separately.

Advisors do not receive any special compensation if they recommend the Program to you and you decide to participate in the Program.

### **Additional Costs**

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<sup>1</sup> Registration as an investment adviser does not imply a certain level of skill or training.

Participants in the Program may be required to incur costs in addition to the Program Fee. These costs include:

- Mutual Fund Charges. If your account is invested in mutual funds, you may be charged additional fees charged by mutual funds to their shareholders. This is a fee that is separate from the Program Fee, and it is generally described in each fund's prospectus. Fees charged by mutual funds can include a management fee, other fund expenses, distribution fees and sales charges.
- Structured Product Charges. If your account is invested in a structured product, you may be charged a one-time custodial transaction fee, which is separate from the Program Fee.
- Virtu Platform Charges: If you or your Advisor uses the Virtu Platform for consolidating and reporting on your assets, and if your Advisor retains the services of Axxcess Wealth Management, LLC ("Axxcess") as a sub-advisor, the applicable fees for the assets under management by Axxcess will be disclosed by Axxcess and forwarded to you prior to your investment. Either Arete or Axxcess will collect the fees and pay an allocable amount of such fees to Axxcess.
- Additional Fees. You may also incur costs separate from the Program Fee for:
  - National securities exchange fees
  - Charges for transactions not executed through your custodian
  - Currency exchange expenses
  - Wire transfer fees
  - Other fees required by law
- With respect to unregistered private funds recommended by Arete and its Advisors, the applicable fees and expenses are set forth in the relevant offering documents, including the Private Placement Memorandum. In connection with these investments, Arete and its Advisors may receive performance-based compensation or "carried interest" ranging from 5% to 20% of the carried interest payable to the General Partner of the unregistered private fund. The performance-based compensation or carried interest may vary across the private funds and may vary within funds in relation to types of investments or certain clients. In addition, certain private funds offer a preferred return threshold prior to which no carried interest is paid to Arete or its Advisors. Investors should refer to the Private Placement Memorandum of the relevant private fund for further information with respect to fees.

Advisor participates in the institutional advisor program (the "Program") offered by TD Ameritrade Institutional. TD Ameritrade Institutional is a division of TD Ameritrade Inc., member FINRA/SIPC/NFA ("TD Ameritrade"), an unaffiliated SEC-registered broker-dealer and FINRA member. TD Ameritrade offers independent investment advisory services which include custody of securities, trade execution, and the

clearance and settlement of transactions. Advisor receives some benefits from TD Ameritrade through its participation in the Program.

As disclosed above, Advisor participates in TD Ameritrade's institutional customer program and Advisor may recommend TD Ameritrade to Clients for custody and brokerage services. There is no direct link between Advisor's participation in the program and the investment advice it gives to its Clients, although Advisor receives economic benefits through its participation in the program that are typically not available to TD Ameritrade retail investors. These benefits include the following products and services (provided without cost or at a discount): receipt of duplicate Client statements and confirmations; research related products and tools; consulting services; access to a trading desk serving Advisor participants; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to Client accounts); the ability to have advisory fees deducted directly from Client accounts; access to an electronic communications network for Client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to Advisor by third party vendors. TD Ameritrade may also have paid for business consulting and professional services received by Advisor's related persons. Some of the products and services made available by TD Ameritrade through the program may benefit Advisor but may not benefit its Client accounts. These products or services may assist Advisor in managing and administering Client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help Advisor manage and further develop its business enterprise. The benefits received by Advisor or its personnel through participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade. As part of its fiduciary duties to clients, Advisor endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by Advisor or its related persons in and of itself creates a potential conflict of interest and may indirectly influence the Advisor's choice of TD Ameritrade for custody and brokerage services.

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

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We do not impose a minimum account size to participate in the Program. Our Program clients generally include individuals, pension and profit sharing plans, trusts, estates, charitable organizations, corporations and other business entities.

## **Item 6 – Advisor Selection and Evaluation**

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### **Advisor Selection**

We select Advisors based on our evaluation of their strategies, organizational and personal backgrounds, performance records and investment implementation capabilities. Advisors must meet all applicable state examination, experience and registration requirements. We also consider applicable educational and

business background, with particular emphasis on the fields of investment, risk management, taxation, pension planning, and estate planning.

We select Advisors for particular accounts based our evaluation of how well an Advisors' strengths match a given client's investment objectives, financial situation, and any investment restrictions imposed by the client. As those factors change, we may consider replacing an Advisor entirely or assigning a new Advisor to your account.

### **Performance Monitoring and Evaluation**

Our compliance department evaluates performance of Advisors by reviewing Program account performance against that of comparable indices. Such reviews are typically done every quarter. Additional reviews may be triggered by material market, economic or political events or by changes in a client's financial situation or portfolio. Program clients also receive a monthly report from their custodian that details the account performance for the month.

We have retained Envestnet to provide us with various administrative services that include (1) determining the fair market value of assets held in the account at least quarterly and (2) producing performance reports for our clients detailing account assets, account transactions, receipt and disbursement of funds, interest and dividends received, and account gain or loss by security as well as for the total account.

We regularly review performance information provided to clients by custodians and Envestnet. By comparing such performance information with account information generated from our internal systems, we can ensure that such performance information is accurate and complies with required presentation standards.

All Advisors for the Program are registered as investment advisor representatives of Arete and are subject to the same selection and review process.

### **Our Advisory Business**

Our firm provides the investment management services described in Item 4 above to both our general advisory clients and Program participants. We generally manage our Program accounts in a similar manner as our general advisory client accounts, except that we sometimes manage multiple Program accounts under a single portfolio management philosophy. That means that we may place several Program clients into a single portfolio that can be traded simultaneously. Additionally, as explained in Item 4 above, we receive a portion of the Program Fee for our advisory services to Program clients.

### **Tailored Advisory Services**

All of our clients may impose restrictions on investing in certain securities, industries or sectors. You must advise us of any such restrictions in writing. In other respects, we individualize our services differently depending on the nature and type of client (i.e. individual, pension plan, charitable organization or other).

If you are a pension plan, charitable, trust or estate client, you generally provide us with an investment policy to follow. If you are an individual, we will assist you in creating an investment policy. Our guidelines for creating client investment policies are discussed in more detail in Item 7 below.

## **Performance-Based Fees**

We do not charge performance-based fees.

## **Methods of Analysis Used to Manage Your Assets**

We use the following methods of analysis in formulating our investment advice:

- **Charting**. In this type of technical analysis, we review charts of market and security activity in an attempt to identify when the market is moving up or down and to predict how long the trend may last and/or reverse.
- **Fundamental Analysis**. We attempt to measure the intrinsic value of a security by looking at economic and financial factors (including the overall economy, industry conditions, and the financial condition and management of the company itself) to determine if the company is underpriced (indicating it may be a good time to buy) or overpriced (indicating it may be time to sell).
- **Technical Analysis**. We analyze past market movements and apply that analysis to present in an attempt to recognize recurring patterns of investor behavior and potentially predict future price movement.
- **Cyclical Analysis**. In this type of technical analysis, we measure the movement of a particular stock against the overall market in an attempt to predict the price movement of the security.
- **Quantitative Analysis**. We use mathematical models in an attempt to obtain more accurate measurements of a company's quantifiable data, such as the value of a share price or earnings per share, and predict changes to that data.
- **Qualitative Analysis**. We subjectively evaluate non-quantifiable factors such as quality of management, labor relations, and strength of research and development factors not readily subject to measurement, and predict changes to share price based on that data.
- **Asset Allocation**. Rather than focusing primarily on securities selection, we attempt to identify an appropriate ratio of securities, fixed income, and cash suitable to the client's investment goals, time horizon and risk tolerance.
- **Mutual Fund and/or ETF Analysis**. We look at the experience and track record of the manager of the mutual fund or exchange traded fund ("ETF") in an attempt to determine if the manager has demonstrated an ability to invest over a period of time and in different economic conditions. We also look at the underlying assets in a mutual fund or ETF in an attempt to determine if there is significant overlap in the underlying investments held in another fund in the client's portfolio. We also monitor the funds or ETFs in an attempt to determine if they are continuing to follow their stated investment strategy.

## **Strategies Used to Manage Your Assets**

We use the following strategies in managing client accounts, provided that such strategies are appropriate to the needs of the client and consistent with the client's investment objectives, risk tolerance, and time horizons.

- Long-Term Purchases. We purchase securities with the idea of holding them in the client's account for a year or longer. Typically, we employ this strategy when we believe the securities are currently undervalued, and/or we want exposure to a particular asset class over time, regardless of the current projection for this class.
- Short Sales. We borrow shares of a stock for your portfolio from someone who owns the stock on a promise to replace the shares on a future date at a certain price. Those borrowed shares are then sold. On the agreed-upon future date, we buy the same stock and return the shares to the original owner. We engage in short selling based upon our determination that the stock will go down in price after we have borrowed the shares. If we are correct and the stock price has gone down since the shares were purchased from the original owner, our client realizes a profit.
- Margin Transactions. We will purchase stocks for your portfolio with money borrowed from your brokerage account. This allows you to purchase more stock than you would be able to with your available cash, and allows us to purchase stock without selling other holdings.

### **Option Writing**

We may use options as an investment strategy. An option is a contract that gives the buyer the right, but not the obligation, to buy or sell an asset (such as a share of stock) at a specific price on or before a certain date. An option, just like a stock or bond, is a security. An option is also a derivative, because it derives its value from the underlying asset.

The two types of options are calls and puts:

- A "call" gives us, the holder, the right to buy an asset at a certain price within a specific period of time. We will buy a call if we determine that the stock will increase substantially before the option expires.
- A "put" gives us, the holder, the right to sell an asset at a certain price within a specific period of time. We will buy a put if we have determined that the price of the stock will fall before the option expires.

We will use options to speculate on the possibility of a sharp price swing. We will also use options to "hedge" a purchase of the underlying security; in other words, we will use an option purchase to limit the potential upside or downside of a security we have purchased for your portfolio.

We use "covered calls," in which we sell an option on a security you own. In this strategy, you receive a fee for making the option available, and the person purchasing the option has the right to buy the security from you at an agreed upon price.



We use a "spreading strategy" in which we purchase two or more option contracts (for example, a call option that you buy and a put option that you sell) for the same underlying security. This effectively puts you on both sides of the market, but with the ability to vary price, time and other factors.

### **Risk of Loss**

Securities investments are not guaranteed and you may lose your money on your investments, which you should be prepared to bear. We will work with you to understand your tolerance for risk.

### **Voting Client Securities**

As a matter of firm policy, we do not vote proxies on behalf of clients. Therefore, although our firm may provide investment advisory services relative to client investment assets, clients maintain exclusive responsibility for: (1) directing the manner in which proxies solicited by issuers of securities beneficially owned by the client shall be voted, and (2) making all elections relative to any mergers, acquisitions, tender offers, bankruptcy proceedings or other type events pertaining to the client's investment assets. Clients are responsible for instructing each custodian of the assets, to forward to the client copies of all proxies and shareholder communications relating to the client's investment assets.

We may provide clients with consulting assistance regarding proxy issues if they contact us with questions.

## **Item 7 – Client Information Provided to Advisors**

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### **Pension Plans, Charitable Organizations, Trusts and Estates**

Generally, our pension plan, charitable, trust and estate clients provide Advisors with an investment policy to follow, which we regularly review and you may update. Our Advisors invest your assets in accordance with your investment policy.

### **Individual Clients**

We ask you to complete an investor questionnaire to assist us in developing investment objectives that reflect your unique goals, liquidity requirements, risk-tolerance and time horizon. We review your questionnaire periodically (at least annually) to be sure the objectives continue to meet your particular needs and goals. Risk tolerance levels will be documented in the investment policy statement that we prepare for you.

In this process, we also assist you in developing appropriate allocation objectives. However, market volatility can sometimes change asset values. When this happens, the values of your assets may become inconsistent with your desired allocation objective. If we think it is appropriate, we will rebalance your portfolio to align with your allocation objectives.

## **Item 8 – Client Contact with Advisors**

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Client contact with Advisors will vary widely depending on the number of clients each Advisor is involved with within their respective practice and/or the number of accounts over which the Advisor has discretion.

Generally, client accounts are reviewed periodically or in response to client requests. Usually, clients will not participate in the review. Arrangements for formal reviews are determined by us on a case-by-case basis. Additional reviews may be provided based on a significant change in the market, the client's financial situation, significant additions to or withdrawals from the account, transactions and significant changes in asset allocations, or at our or the client's request.

## **Item 9 – Additional Information**

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### **Disciplinary Information**

We do not have any legal or other disciplinary items to report to you. We are obligated to disclose any disciplinary event that would be material to you when evaluating us to initiate a client/adviser relationship, or to continue a client/adviser relationship with us.

### **Other Financial Industry Activities and Affiliations**

We are owned by our employees and representatives either directly or indirectly through Arete Wealth, Inc. Arete Wealth is also the parent of:

- Arete Wealth Management, LLC, an Illinois limited liability company and a FINRA registered broker dealer. Arete Wealth Management is also registered with the CFTC as an introducing broker, but we do not recommend futures products as part of the Program.
- Arete Insurance Agency, LLC, an Illinois limited liability company.
- Arete Consulting, LLC, an Illinois limited liability company.

### **Management Personnel**

Management personnel of Arete are separately licensed as registered representatives of Arete Wealth Management, LLC, an affiliated broker dealer. These individuals, in their separate capacity, can effect securities transactions for which they will receive separate, yet customary compensation.

While we endeavor at all times to put the interests of clients first as part of our fiduciary duty, clients should be aware that the receipt of additional compensation itself creates a conflict of interest, and may affect the judgment of these individuals when making recommendations.

### **Recommendation of Third-Party Investment Advisers**

We sometimes recommend the services of various registered investment advisers to our clients. In exchange for this recommendation, we receive a referral fee from the selected investment adviser. The fee received by us is typically a percentage of the fee charged by that investment adviser to the referred client. The portion of the advisory fee paid to us does not increase the total advisory fee paid to the

selected investment adviser by the client. We do not charge the client any fees for these referrals. We will only recommend advisers that pay us a referral fee.

We may recommend the services of Axxcess Wealth Management, LLC, a sub-advisor and investment advisor registered with the SEC, which offers administrative and investment advisory services with respect to Arete's Virtu Platform. Axxcess will act as a sub-advisor and fiduciary, and will have discretionary authority over your account. Axxcess charges fees for access to Virtu and for its sub-advisory services. Axxcess will arrange for delivery of disclosure documents for itself and the third-party managers on Virtu. We have a revenue sharing arrangement with Axxcess, and therefore have a financial incentive to direct clients to the services and third-party model portfolios available on Virtu.

We are aware of the special consideration required under Rule 206(4)-3 of the Investment Advisers Act of 1940. As such, all appropriate disclosure shall be made and all applicable Federal and State laws will be observed.

Clients should be aware that the receipt of additional compensation by Arete and its management persons or employees creates a conflict of interest that may impair the objectivity of our firm and these individuals when making advisory recommendations. We endeavor, at all times, to put the interest of our clients first. We take the following steps to address this conflict:

- We disclose to clients the existence of all material conflicts of interest, including the potential for us or our employees to earn compensation from the referral of clients to other registered investment advisers;
- We disclose to the client, in a separate disclosure document, the compensation we receive in exchange for the client's referral to the selected investment adviser;
- We collect, maintain and document accurate, complete and relevant client background information, including the client's financial goals, objectives and risk tolerance;
- Our firm's management conducts regular reviews of each client account to verify that all recommendations made to a client are suitable to the client's needs and circumstances;
- We conduct periodic due diligence on the selected investment advisers to establish that the advisers are suitable to recommend to our clients;
- We educate our employees regarding the responsibilities of a fiduciary, including the need for having a reasonable and independent basis for the investment advice provided to the client.

### **Code of Ethics**

We have adopted a code of ethics that applies to all our Advisors. Each of them must comply with our code of ethics as a condition to working with us. Our Chief Compliance Officer (our "CCO") administers and enforces our code of ethics.

Our code of ethics requires our Advisors to:

- comply with applicable federal and state securities laws

- conduct themselves with integrity and act ethically in their dealings with the public, clients and professional associates
- fulfill their duty of loyalty by acting solely in our clients' best interests
- strive to provide long-term client satisfaction
- disclose any conflict of interest
- adhere to our policies limiting the giving or receiving of gifts and business entertainment
- adhere to our policies limiting the giving of political contributions
- report any violation of our compliance manual to our CCO as soon as possible
- submit reports of securities beneficially owned by them and their related persons, and submit reports of securities transactions by them and their related persons, subject to certain permitted exceptions.

We prohibit our Advisors from investing in initial public offerings, and they must receive the approval of our CCO before they invest in any private placement.

Our clients, or prospective clients, may request a copy of our code of ethics by contacting our CCO, UnBo (Bob) Chung, (312) 940-3684 or the address on the cover page of this brochure.

### **Participation or Interest in Client Transactions and Personal Trading**

We and/or our Advisors may: (a) buy or sell the same securities we buy or sell for your account; or (b) buy or sell the same securities we buy or sell for your account *and* engage in the transaction at the same time. As a result, there may be a conflict of interest that arises between you and us (or one of our Advisors) in the allocation of profitable trades. To address that potential conflict, we always allocate trades to you before we allocate them to our Advisors or to us.

We do not buy or sell securities for your account if we and/or one of our Advisors have a material financial interest in the issuer or the securities. However, if we have a client whose securities are traded publicly, we and/or our Advisors may invest client assets in that company's securities during periods when we do not have any material nonpublic information about that company. Transactions in any such securities must be preapproved by our CCO.

### **Review of Accounts**

Program client accounts are reviewed as described above in Item 6, under "Performance Monitoring and Evaluation."

### **Client Referrals and Other Compensation**

Other than the Program Fee, we do not receive an economic benefit from anyone other than our Program clients for providing advisory services to our Program clients.

### **Financial Information**

As an advisory firm that maintains discretionary authority for client accounts, we are also required to disclose any financial condition that is reasonably likely to impair our ability to meet our contractual obligations. We have no such financial circumstances to report.

Arete has not been the subject of a bankruptcy petition at any time during the past ten years.