



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

**CRD #297491**

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This wrap fee program brochure provides information about the qualifications and business practices of Cornerstone Wealth Strategies, Inc., (hereinafter referred to as “Cornerstone” “Advisor”, “us”, “we”, or “our firm”). If you have any questions about the contents of this brochure, please contact Cornerstone by telephone at (509) 396-0588 or by email at [info@cswsteam.com](mailto:info@cswsteam.com). The information in this brochure has not been approved by the United States Securities and Exchange Commission (SEC) or any state securities authority.

Additional information about Cornerstone and our associates is available on the SEC’s Investment Advisor Public Disclosure website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Please note that the use of the term “registered investment advisor” and description of Cornerstone and/or our associates as “registered” does not imply a certain level of skill or training.

## Item 2 – Material Changes

Cornerstone is required to advise you of any material changes to our Firm Brochure (“Brochure”) from our last annual update, identify those changes on the cover page of our Brochure or on the page immediately following the cover page, or in a separate communication accompanying our Brochure. We must state clearly that we are discussing only material changes since the last annual update of our Brochure, and we must provide the date of the last annual update of our Brochure.

Please note that we do not have to provide this information to a client or prospective client who has not received a previous version of our brochure.

There are no material changes since the annual update filing of 2022.

## Item 3 – Table of Contents

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## Item 4 – Service, Fees, and Compensation

Cornerstone offers various types of advisory services and programs, including wrap fee programs, financial planning services, and retirement plan consulting services. This Brochure provides a description of the advisory services offered under Cornerstone’s Wrap Fee Program. For information about Cornerstone’s other advisory services other than the Wrap Fee Program, please contact your Cornerstone investment advisory representative (“IAR”) or go to [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) for a copy of a similar brochure that describes our other services.

### Our Wrap Fee Program

Cornerstone’s Wrap Fee Program is a comprehensive, open-architecture, fee-based investment platform, offered to clients. Through this platform, clients can consolidate multiple investments into one account and receive one statement.

The Wrap Fee Program is sponsored by Cornerstone and is managed on an individualized basis. The investments are selected by the Cornerstone advisor in accordance with the client’s investment goals and objectives, risk tolerance, and other client-specific factors. Cornerstone advisors provide ongoing investment advice and management on client assets in the Wrap Fee Program. Cornerstone advisors provide advice on the purchase and sale of various types of investments, such as mutual funds, ETFs, equities, options, and fixed income securities. Cornerstone advisors provide advice that is tailored to the individual needs of the client based on the investment objective chosen by the client. Clients may impose restrictions on investing in certain securities or group of securities through documentation on the Account Application, completed at time of account opening.

As part of our asset management service for an account in the Wrap Fee Program, we generally create a portfolio, consisting of individual stocks or bonds, exchange traded funds (“ETFs”), options, mutual funds and other public and private securities or investments. The client’s individual investment strategy is tailored to their specific needs and may include some or all of the previously mentioned securities. Each portfolio will be initially designed to meet a particular investment goal, which we determine to be suitable to the client’s circumstances. Once the appropriate portfolio has been determined, we review the portfolio at least quarterly and if necessary, rebalance the portfolio based upon the client’s individual needs, stated goals, and objectives. Each client has the opportunity to place reasonable restrictions on the types of investments to be held in the portfolio.

### Fee Schedule

A wrap fee program allows our clients to pay a specified fee for investment advisory services and the execution of transactions. Your fee is bundled with our costs for executing transactions in your account(s). This results in a higher advisory fee to you. We do not

charge our clients higher advisory fees based on their trading activity, but you should be aware that we may have an incentive to limit our trading activities in your account(s) because we are charged for executed trades. By participating in a wrap fee program, you may end up paying more or less than you would through a non-wrap fee program where a lower advisory fee is charged, but trade execution costs are passed directly through to you by the executing broker.

In the Wrap Fee Program, clients pay a single fee for advisory services and execution of transactions (an “Account Fee”). Clients do not pay individual transaction costs such as brokerage commissions, markups or transaction charges for execution of transactions in their Wrap Fee Program account.

Investable Assets	\$0-\$500K	\$500K-\$2M	\$2M-\$5M	\$5M+
Annual Fee	1.25%	1%	.75%	.50%

The Account Fee is a percentage of the value of all assets in a client’s account, including cash holdings.

Our fees are negotiable. Factors that may impact what we charge clients include, but may not be limited to:

- Scope of services rendered
- Complexity
- Size
- Number of accounts / relationships with the client
- Number of meetings required
- Location of clients

The maximum Account Fee is 1.5%. The Account Fee is paid to Cornerstone based on the written agreement between Cornerstone and the client.

Clients may incur certain charges imposed by custodians, brokers, and third-party managers or other third parties that we do not control. These charges can include such things as deferred sales charges, transfer taxes, wire transfer and electronic fund fees, and other charges or taxes. Descriptions of some of these charges are explained below in the section, Other Types of Fees and Expenses.

#### **How the Account Fee is Charged**

Cornerstone deducts the Account Fee from the account. We calculate and deduct the Account Fee in the method described in the Account Agreement, unless other arrangements are made in writing. We will bill a client directly for the Account Fee, rather than a deduction from the account directly, if requested by the client and agreed to in writing by Cornerstone. Cornerstone deducts the Account Fee quarterly in advance. We bill the Account Fee based on a pro-rata annualized basis quarterly based on the value of your account on the last day of the previous quarter. If the Account Agreement is terminated before the end of the quarterly period, Cornerstone will pay the client a prorated refund of any pre-paid quarterly Account Fee based on the number of days remaining in the quarter after the termination date.

#### **Important Things to Consider About Fees on a Wrap Fee Program Account**

The Account Fee is an ongoing wrap fee for investment advisory services, the execution of transactions and other administrative and custodial services. The Account Fee may cost the client more than purchasing the program services separately, for example, paying an advisory fee plus commissions for each transaction in the account. Factors that bear upon the cost of the account in relation to the cost of the same services purchased separately include the:

- Type and size of the account;
- Historical and/or expected size or number of trades for the account; and
- Number and range of supplementary advisory and client-related services provided to the client.

The Account Fee also may cost the client more than if assets were held in a traditional brokerage account. In a brokerage account, a client pays a representative a commission for each transaction, and the representative has no duty to provide ongoing advice with respect to the account. If the client plans to follow a buy and hold strategy for the account or does not wish to purchase ongoing investment advice or management services, the client should consider opening a brokerage account rather than a Wrap Fee Program account. Although Cornerstone or its advisors may be able to open a brokerage account for you in their role as a registered representative (“RR”) with LPL, clients are under no obligation to use Cornerstone for that service.

The Account Fee may be higher than the fees charged by other investment advisors for similar services.

Cornerstone is paid a percentage of your overall advisory fee and this may create an incentive to recommend that you participate in a wrap fee program rather than a non-wrap fee program (where you would pay for trade execution costs) or brokerage account where commissions are charged. This is because, in some cases, we may stand to earn more compensation from advisory fees paid to us through a wrap fee program arrangement if your account is not actively traded.

Although clients do not pay transaction charges in a Wrap Fee Program account, clients should be aware that Cornerstone pays the custodian transaction charges for those transactions. The transaction charges paid by Cornerstone vary based on the type of transaction (e.g., mutual fund, equity or fixed income security) and for mutual funds based on whether or not the mutual fund pays 12b-1 fees<sup>1</sup> and/or recordkeeping fees that are retained by the custodian in amounts sufficient to cover the majority of the trading costs. Transaction charges paid by Cornerstone vary depending upon the custodian and investment (equities, fixed income or mutual funds). Because Cornerstone pays the transaction charges in Wrap Fee Program accounts, there is a conflict of interest. Clients should understand that the cost to Cornerstone of transaction charges may be a factor that Cornerstone considers when deciding which securities to select and how frequently to place transactions in a Wrap Fee Program account. Cornerstone attempts to mitigate this potential conflict of interest by paying one set fee for the majority of transactions charged to Cornerstone as a percentage of assets and not by transactions placed.

The investment products available to be purchased in the program can be purchased by clients outside of a Wrap Fee Program account through broker-dealers or other investment advisory firms not affiliated with Cornerstone.

### **Other Types of Fees and Expenses**

There are other fees and expenses that are imposed by third parties that could apply to investments in Wrap Fee Program accounts. Some of these fees and charges are described here.

If a client's assets are invested in mutual funds or other pooled investment products, clients should be aware that there will be two layers of advisory fees and expenses for those assets. Client will pay an advisory fee to the fund manager and other expenses as a shareholder of the fund. In the case of mutual funds that are fund of funds, there could be an additional layer of fees, including performance fees that may vary depending on the performance of the fund. Client will also pay Cornerstone the Account Fee with respect to those assets.

Most of the mutual funds available in the program may be purchased directly. Therefore, clients could generally avoid the second layer of fees by not using the advisory services of Cornerstone and by making their own decisions regarding the investment. If client transfers into a Wrap Fee Program account a previously purchased mutual fund, and there is an applicable contingent deferred sales charge on the fund, client will pay that charge when the mutual fund is sold. If the account is invested in a mutual fund that charges a fee if redemption is made within a specific time period after the investment, client will be charged a redemption fee. If a mutual fund has a frequent trading policy, the policy can limit a client's transactions in shares of the fund (e.g., for rebalancing, liquidations, deposits or tax harvesting).

You may pay custodial fees, charges imposed directly by a mutual fund, index fund, or exchange traded fund which shall be disclosed in the fund's prospectus (i.e., fund management fees and other fund expenses), mark-ups and mark-downs, spreads paid to market makers, wire transfer fees and other fees and taxes on brokerage accounts and securities transactions. These fees are not included within the wrap-fee you are charged by our firm. LPL Financial charges an annual account for of \$40 for all retirement accounts with assets under \$250,000.

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

Cornerstone provides investment advice to individuals, pension and profit-sharing plans, trusts, estates, charitable organizations, corporations, and business entities.

There are no account minimums although Cornerstone requires a minimum investment amount of \$500,000 (regardless of individual account size). Cornerstone has the discretion to waive the investment minimum.

### **Item 6 – Portfolio Manager Selection and Evaluation**

Cornerstone does not use outside portfolio managers for our wrap fee program; all accounts are managed by Cornerstone and its advisors.

Cornerstone is responsible for the overall investment advice and management services offered to clients. Cornerstone generally requires that individuals involved in determining or giving investment advice have at least two years of financial advisory or

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<sup>1</sup> Cornerstone does not receive 12b-1 fees. If 12b-1 fees are paid by the mutual fund company those fees are retained by the custodian in which case, the client has higher mutual fund expenses but the custodian charges less.

brokerage-related experience. Each advisor is also generally required to pass a Series 65 exam or possess a Series 66 license, depending on the State(s) in which the advisor is registered.

Since our advisors manage all accounts, our IARs act as the portfolio manager for accounts using our wrap fee program described in this Brochure. This may create a conflict of interest in that other investment advisory firms may charge lower fees than our firm for similar services and we're choosing not to use those services. By staying within Cornerstone and not seeking outside portfolio managers, our advisors are not undergoing the same level of review to which an outside portfolio manager participating in our wrap fee program would be subject.

Cornerstone advisors are considered "supervised persons" of the firm. This means that our advisors are subject to Cornerstone's control and supervision.

#### **Advisory Services**

See Item 4 of our ADV Part 2A Brochure for detailed information about the advisory services we offer through our wrap fee program.

#### **Individual Tailoring of Advice to Clients:**

As discussed in Item 4 of our ADV Part 2A Brochure, we offer individualized investment advice to clients, tailoring our services to the individual needs of each client.

#### **Ability of Clients to Impose Restrictions on Investing in Certain Securities or Types of Securities**

Each client has the opportunity to place reasonable restrictions on the types of investments to be held in the portfolio.

#### **Participation in Wrap Fee Programs**

We do not manage wrap fee accounts in a different fashion than non-wrap fee accounts; our wrap fee and non-wrap fee accounts are managed on an individualized basis according to the client's investment objectives, financial goals, risk tolerance, etc.

#### **Performance-based Fees and Side-by-Side Management**

We do not charge performance-based fees to our clients.

#### **Methods of Analysis, Investment Strategies and Risk of Loss**

Cornerstone may employ varying philosophies, strategies, and tools in their investment analysis and due diligence processes. It could utilize the following methods of analysis and strategies:

- Fundamental
- Technical
- Quantitative
- Qualitative

Cornerstone generally applies accepted investment theories so that investment choices for clients align with the client's investment needs and objectives and are made with the objective to reasonably diversify client assets to help minimize the risk of large losses and to provide the potential for varying degrees of long-term appreciation and capital preservation. Cornerstone generally use a mix of equity and fixed income exposures to meet the risk-based categories identified with the client. Cornerstone will diversify, reallocate and rebalance the investments and associated risk levels over time in accordance with generally accepted investment theories and consistent with the client's risk tolerance. Cornerstone may make recommendations for changes to the underlying investments and/or the asset allocation percentages of any Model Portfolios as well.

In the implementation of its analysis, Cornerstone may use some or all of the following strategies at any given time:

*Long Term Purchases* – securities purchased with the expectation that the value of those securities will grow over a relatively long period of time, generally greater than one year.

*Short Term Purchases* – securities purchased with the expectation that they will be sold within a relatively short period of time, generally less than one year, to take advantage of the securities' short-term price fluctuations. Short-term gains in taxable accounts are subject to federal income tax at higher rates than long-term gains. This difference in tax treatment is a disadvantage of short-term trades for taxable clients.

*Trading* – Cornerstone may use short-term trades (in general, selling securities within 30 days of purchasing the same securities) when managing a client's account(s). Cornerstone may sell a security soon after purchasing it on occasions when it determines that there is a reasonable basis for the sale and it is in the client's best interest given a client's stated investment objectives and tolerance for risk. Short-term gains in taxable accounts are subject to federal income tax at higher rates than long-term gains, while losses realized on securities held 30 days or less are generally not tax deductible. These differences in tax treatment are disadvantages of short-term trades for taxable clients. There is also risk in that high velocity trading creates substantial transactions costs that in aggregate could negatively impact account performance.

*Margin Transactions* – a securities transaction in which an investor borrows money to purchase a security, in which case the security serves as collateral on the loan. This allows the client to purchase more stock than they would otherwise be able to, based on the account's available cash, and would allow Cornerstone to purchase stock without selling other holdings, which is therefore a higher risk strategy. Securities purchased on margin are subject to liquidation, additional margin calls, and interest on the funds borrowed. Should the value of the securities decline, clients may be forced to deposit additional margin with limited notice, or to liquidate their securities at substantial losses.

#### **Risk of Loss**

Please note: Investing in securities involves risk of loss that clients should be prepared to bear. While the value of your investments could increase and your account(s) thereby enjoy a gain, it is also possible that the value of your investments could decrease and your account(s) thereby suffer a loss. It is important that you understand the risks associated with investing in the securities markets, that you be appropriately diversified in your investments, and that you ask us any questions you may have.

#### **Voting Client Securities**

Cornerstone does not vote proxies on securities. Clients are expected to vote their own proxies. When assistance on voting proxies is requested, Cornerstone will provide recommendations to the client. If a conflict of interest exists, it will be disclosed to the client.

#### **Item 7 – Client Information Provided to Portfolio Manager(s)**

Cornerstone obtains the necessary financial data from the client and assists the client in setting appropriate investment objectives for the account. Cornerstone obtains this information by having the client complete an Account Application which is part of the Account Agreement. We ask clients to contact Cornerstone if there have been any changes in the client's financial situation or investment objectives.

#### **Item 8 – Client Contact with Portfolio Manager(s)**

Clients are always free to directly contact their portfolio manager(s) with any questions or concerns they have about their portfolios or other matters.

#### **Item 9 – Additional Information**

##### **Disciplinary Information**

Neither our firm nor any of our management persons have been subject to any material legal or disciplinary events.

##### **Other Financial Industry Activities & Affiliations**

The firm's advisors are registered with LPL Financial, member FINRA/SIPC, as registered representatives. As stated earlier in section Item 4, the primary purpose for the affiliation with LPL is to collect service fees and commissions from legacy relationships that have not converted to a fee-based relationship. The firm doesn't actively seek new commission relationships.

Cornerstone may offer securities and receive normal and customary commissions as a result of securities transactions. This presents a conflict of interest to the extent that Cornerstone recommends that a client invest in a security which results in a commission being paid to him/her. In addition, as a result of this relationship, LPL Financial may have access to certain confidential information (e.g., financial information, investment objectives, transactions, and holdings) about Cornerstone's clients, even if client does not establish any account through LPL. If you would like a copy of the LPL Financial privacy policy, please request one from Cornerstone.

Some Cornerstone Advisors are insurance agents appointed with various insurance companies. This presents a conflict of interest to the extent that the Advisor recommends that a client purchase insurance products which results in a commission being paid to that agent/Advisor.

Clients are under no obligation to act upon any recommendation or effect any transactions through the Cornerstone Advisor/ agent if client decides to follow the recommendations made.

##### **Code of Ethics, Participation or Interest in Client Transactions & Personal Trading**

Cornerstone has established a Code of Ethics which applies to all of our associated persons, including our Advisors. An investment advisor is considered a fiduciary. As a fiduciary, it is an investment advisor's responsibility to provide fair and full disclosure of all material facts and to act solely in the best interest of each of our clients at all times. We have a fiduciary duty to all of our clients. Our fiduciary duty is the core underlying principle for our Code of Ethics.

We require all of our supervised persons to conduct business with the highest level of ethical standards and to comply with all federal and state securities laws at all times. Upon employment or affiliation and at least annually thereafter, all supervised persons will sign an acknowledgement that they have read, understood, and agreed to comply with our Code of Ethics. Our firm and supervised persons must conduct business in an honest, ethical, and fair manner and avoid all circumstances that might negatively affect or appear to affect our duty of complete loyalty to all clients.

We have established the following restrictions as they relate to our participation or interest in client transactions and personal transactions of supervised persons:

- No supervised persons of our firm may purchase, sell, or hold any security in a manner calculated to create personal benefit to that supervised person. If a supervised person stands to materially benefit from an investment decision for a client, the supervised person must disclose the full nature of the interest and personal benefit.
- A supervised person cannot trade ahead of an advisory client when he or she is buying or selling the same securities for themselves personally.
- No supervised person trades his or her own accounts.

This disclosure is provided to give all clients a summary of our Code of Ethics relating to transactions. However, if a client or a potential client wishes to review our Code of Ethics in its entirety, a copy will be provided promptly upon request and at no cost. The Chief Compliance Officer of Cornerstone is Beau Ruff. He reviews all employee trades and conducts no trading himself.

### **Review of Accounts**

Cornerstone periodically reviews investment advisory client accounts. Cornerstone Advisors will continuously monitor the underlying securities within client accounts as well as any select third-party managers/programs. The frequency and content of any ongoing reviews done varies depending on the assets under management for the client and the direct agreement with the client. Additional reviews may be triggered by tax law changes, new investment information, changes to the client's own situation, or broad-based changes to the financial markets.

Financial planning clients do not receive reviews of their written plans unless they take action to schedule a financial consultation with us. We do not provide ongoing services to Comprehensive Financial Planning or Hourly Consulting clients unless they separately contract with us for a post-financial plan meeting or update to their initial written financial plan.

### **Client Referrals & Other Compensation**

#### **Suggestion of Brokers to Clients**

We recommend LPL Financial as the broker-dealer, or custodian, to clients. LPL is the broker-dealer with which our Advisors are also associated. As a result of the individual association of our Advisors with LPL, we are generally required to utilize the brokerage/custodial services of LPL for investment advisory accounts (see Item 12 above).

Cornerstone and/or its Dually Registered Persons are incented to join and remain affiliated with LPL Financial and to recommend that clients establish accounts with LPL Financial through the provision of Transition Assistance (discussed in Item 12 above). LPL also provides other compensation to Cornerstone and its Dually Registered Persons, including but not limited to bonus payments, repayable and forgivable loans, stock awards and other benefits.

The receipt of any such compensation creates a financial incentive for your representative to recommend LPL Financial as custodian for the assets in your advisory account. We encourage you to discuss any such conflicts of interest with your representative before making a decision to custody your assets at LPL Financial.

#### **Testimonials and Endorsements**

Clients or non-clients may provide testimonials or endorsements (as those terms are defined in 17 CFR 275.206(4)-1) to prospective clients. Cornerstone has no explicit agreement (written or otherwise) under which Cornerstone pays any cash or non-cash compensation to the person providing the endorsement or testimonial. However, if Cornerstone learns that a person provided a testimonial or endorsement, then Cornerstone may sometimes (in its discretion) send that person compensation in the form of a de minimis gift (e.g. a gift valued at \$100). Cornerstone will never exceed the de minimis compensation paid to a person for providing a testimonial or endorsement (total of \$1,000 or less (or the equivalent value in non-cash compensation) during the preceding 12 months).

In this regard, we maintain our testimonial and endorsement compensation rules in strict accordance with Rule 206 (4)-1 of the Investment Advisers Act of 1940 and applicable state and federal laws. All clients referred by endorsement or testimonial to our firm will be given disclosure describing the terms and fee arrangements between our firm and the person making the endorsement or testimonial to include: that cash or non-cash compensation was or will be provided for the testimonial or endorsement, if applicable; and a brief statement of any material conflicts of interest on the part of the person giving the testimonial or endorsement resulting from the investment advisor's relationship with such person.

#### **Vendor Cash and Non-Cash Compensation**

Certain of our vendors (e.g. mutual fund companies, annuity companies, insurance companies, etc.) may provide cash or non-cash compensation to Cornerstone or its IARs from time to time.



Often, the compensation is in the form of small gifts (e.g. a cutting board with the vendor's logo or a coffee mug with vendor's logo or a small gift basket) and either explicitly or implicitly provided to thank Cornerstone or its advisors for doing business with the vendor. These gifts may be kept by the advisor but are also often rejected by Advisors and instead given to other personnel in the office or ultimately given to charities that accept goods for resale. As such, the gifts are highly inconsequential to Cornerstone or its advisors.

Some vendors provide more substantial cash or non-cash compensation to support Cornerstone events. This compensation is usually between \$250 to \$3,500 per vendor per calendar year.

The conflict of interest presented by vendors providing cash or non-cash compensation is that Cornerstone or its IARs may be more likely to use that vendor because of the compensation provided. However, the compensation is highly inconsequential to Cornerstone and its IARs (representing less than approximately one-fourth of one percent of total revenue) thus any apparent conflict is slight. Additionally, Cornerstone only accepts support from vendors for events if we currently use and support that vendor's products. The potential conflict is that the payment might incentive Cornerstone to continue to use the vendor even when it's not in the client's best interest. But, most other vendors offer comparable support so moving vendors does not necessarily change support for any Cornerstone events.

#### **Financial Information**

We are not required to provide financial information in this Brochure because:

- We do not require nor do we solicit prepayment of more than \$1,200 in fees, per client, six or more months in advance.
- We do not take custody of client funds or securities, other than fee deduction.
- We do not have a financial condition or commitment that impairs our ability to meet contractual and fiduciary obligations to clients.
- We have never been the subject of a bankruptcy proceeding.