

# Kovack Securities Inc. and Kovack Advisors, Inc.

## Client Relationship Summary

Dated: June 30, 2020



### Introduction

Kovack Securities, Inc. (“KSI”) is registered with the Securities and Exchange Commission (“SEC”) as a broker-dealer and its affiliate, Kovack Advisors, Inc. (“KAI”) is registered as an investment adviser with the SEC. KSI and KAI are under common ownership. KSI is a member of the Financial Industry Regulatory Authority (“FINRA”), the Municipal Securities Rulemaking Board (“MSRB”) and Securities Investors Protection Corporation (“SIPC”). Securities are offered through KSI, Member FINRA/SIPC.

Brokerage and investment advisory services and fees differ; it is important for you to understand the differences. Free and simple tools are available to research firms and financial professionals at: [www.investor.gov/CRS](http://www.investor.gov/CRS) which also provides educational materials about broker-dealers, investment advisers, and investing. For more information, please scan the QR code to the right and view an SEC video about brokerage and advisory services.



**What Investment Services and Advice can you Provide me?**

**We offer both brokerage and investment advisory services to retail customers.**

#### Broker-Dealer Services/Brokerage Accounts

- Our key brokerage service is buying and selling securities, including corporate, government and municipal bonds, 529 plans, common stocks, mutual funds, insurance products, including variable insurance, options, structured products, and alternative investments like real estate investment trusts, private placements, and similar investments.
- If you have a brokerage account, we do not offer account monitoring services. This means that we do not offer periodic evaluation of your positions in your account, rather, we act in your best interest at the time we make a recommendation.
- We assess your investor profile by gathering information about you and your goals at the outset of our relationship and we make recommendations that are designed to fit that profile. We may also recommend asset allocations including percentages of your assets to various classes of investments such as equities, fixed income and other investments that meet your needs. Our financial professionals use a variety of methods to achieve your goals, which may include technical and/or fundamental analysis and/or modern portfolio theory, among others.
- You make the ultimate decision regarding the purchase or sale of investments.

**For additional information**, please visit our website at <http://www.kovacksecurities.com/RegBIDisclosure.html>

#### Investment Adviser Services/Advisory Accounts

- Our primary advisory services include asset management services, recommendation of third-party asset managers, and financial planning services.
- Our investment approach depends on the program you choose. If you chose asset management services, you may impose reasonable written restrictions on investing in certain securities, types of securities, or industry sectors.
- The information we gather from you will help us implement an asset allocation strategy that will be specific to your goals. Our financial professionals use a variety of methods to achieve your goals, which may include technical and fundamental analysis and modern portfolio theory.
- We utilize affiliated and unaffiliated qualified brokers and custodians for execution of transactions and custody of securities positions.
- We require a minimum account balance of \$50,000 in all of your accounts with us. Account minimums may be negotiated on a client-by-client basis, but our managed account programs are subject to various account minimums depending on the manager selected.

**For additional information**, please see the SEC’s web site at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). There you can review our Form ADV, Part 2A brochure for more details about the advisory services we offer.

For either a brokerage or an advisory account, we offer **Discretionary** and **Non-Discretionary** accounts. When we use discretion, we make the investment decisions and place buy and sell orders in your account without contacting you before doing so. When you have a discretionary account, you grant us that authority in a written agreement. This permits us to decide on the specific securities, the amount of securities without obtaining approval for each transaction. In the instance you do not grant us discretionary authority, we must obtain your approval prior to placing any transactions in your account.

All recommendations regarding your brokerage account will be made in a broker-dealer capacity, and all recommendations regarding your advisory account will be made in an advisory capacity. When we make a recommendation to you, we will expressly tell you orally which account we are discussing. When we make a recommendation about the type of account we believe you should open, or for products and services, we will consider information you provide to us. However, there are material limitations on the types of accounts or products we can offer if your financial professional is not registered to offer those products or services. For example, a financial professional may be licensed only to offer brokerage or advisory services, but not both. Or, the financial professional may not be licensed to sell all products we offer. If this is the case, that financial professional will not be able to offer you the type of product or service for

which he/she is not registered. However, since we have other financial professionals, if you wish to have a type of account, product or service not offered by your financial professional, you should ask to be referred to another of our financial professionals.

**Conversation Starters. Ask your financial professional.**

How will you choose investments to recommend to me?

What is your relevant experience, including your licenses, education and other qualifications?

What do these qualifications mean?

Are there limitations on the types of products and services you can offer me?

**What Fees Will I Pay?**

Broker-Dealer Services/Brokerage Accounts	Investment Adviser Services/Advisory Accounts
<ul style="list-style-type: none"> <li>• When we offer you brokerage services, you pay a <b>transaction-based fee</b> on the specific transaction and not on the value of your account.</li> <li>• With stocks or exchange-traded funds, the fee is usually a separate commission. With other investments, such as bonds, this fee may be part of the price you pay for the investment (called a “<b>mark-up</b>” or “<b>mark-down</b>”). These charges typically range between 0% and 3% per transaction.</li> <li>• With mutual funds, structured products alternative investments, and insurance products, a fee typically called a <b>load</b> or a <b>concession</b> reduces the value of your investment. These fees typically range between 3% and 10% of the value of the investment. With some investments you may pay “<b>surrender charges</b>” upon selling.</li> <li>• Mutual funds, insurance products, and alternative investments typically also charge annual management fees which vary depending on the investment, but typically range between 0.25% and 1.5% per year. We charge you additional fees for services such as: account maintenance, account transfers, ticket charges, wire transfers, account termination, etc. <b>For additional information</b>, please see our brokerage fee schedule at: <a href="http://www.kovacksecurities.com/Brokerage_Fee_Schedule.html">http://www.kovacksecurities.com/Brokerage_Fee_Schedule.html</a></li> <li>• The more transactions in your account, the more fees you will be charged. This creates a conflict because a broker has an incentive to encourage you to engage in transactions. However, we maintain procedures to mitigate these conflicts. Additionally, our brokers have discretion to lower fees on some securities transactions. More details about our fees appear on our website: <a href="http://www.kovacksecurities.com/RegBIDisclosure.html">http://www.kovacksecurities.com/RegBIDisclosure.html</a></li> </ul>	<ul style="list-style-type: none"> <li>• When we offer you advisory services there are typically <b>asset-based fees</b>. Depending on the type of services we provide, there may be financial planning fees, and/or we may share in the fees you pay for third party asset managers.</li> <li>• KAI program fees generally range up to 2.9% of assets under management on an annual basis, including any fee we share with a recommended third-party manager of your account.</li> <li>• KAI offers financial planning services on an hourly basis at a negotiable rate of \$350 per hour and on a fixed-fee basis for a financial plan which is a monthly or quarterly charge.</li> <li>• While we do not charge fees based on performance of your account, some of our third-party managers do (see their disclosures for more detail). We do not share in these fees.</li> <li>• Fees charged by us are established in your agreement for advisory services. If you open an investment advisory account with us, the fee you pay is generally based on the value of your account (ongoing asset-based fees). The fees we charge may be negotiable based on the amount of assets under management, complexity of client goals and objectives, and level of services rendered.</li> <li>• Our fees are separate from the additional investment expenses, mutual fund, ETF, cash management, custodial, and other fees and expenses charged by custodians, executing brokers, and dealers. We may receive compensation for transactions placed in advisory accounts and for the purchase of investment products recommended.</li> <li>• For more details on the fees and charges visit <a href="http://www.adviserinfo.sec.gov">www.adviserinfo.sec.gov</a> and review our Form ADV, Part 2A brochure (specifically Item 5).</li> <li>• In the instance that we charge an asset-based fee, the more assets there are in your advisory account, the more you will pay in fees. We therefore have an incentive to encourage you to increase the assets in your account.</li> </ul>

Whether you choose advisory services or brokerage services, you will pay fees and costs whether you make or lose money on your investments. Fees and costs will reduce any amount of money you make on your investments over time. Please make sure you understand what fees and costs you are paying. Scan the QR code for more information.



**Conversation Starters. Ask your financial professional.**

Help me understand how these fees and costs might affect my investments.

If I give you \$10,000 to invest, how much will go to fees and costs and how much will be invested for me?

## What are your legal obligations to me when acting as my investment adviser or providing recommendations as a broker?

When we provide you with a recommendation as your broker-dealer or act as your investment adviser, we have to act in your best interest and not put our interest ahead of yours. At the same time, the way we make money creates some conflicts with your interests. You should understand and ask us about these conflicts because they can affect the investment advice we provide to you. Here are some examples to help you understand what this means.

**How else  
does your  
firm  
make  
money  
  
and  
  
what  
conflicts  
of interest  
do you  
have?**

When we provide recommendations in a brokerage account	When we act as your investment adviser
<ul style="list-style-type: none"> <li>Certain product sponsors pay us to market their products to you, sponsor our conferences and events, and/or provide allowances to us for marketing and due diligence costs. These payments create a conflict because the incentives can influence us to favor the products of the sponsoring organizations. However, we maintain policies and procedures designed to mitigate these conflicts. More information about revenue sharing can be found on our website at: <a href="http://kovacksecurities.com/RevenueSharingAgreements.html">http://kovacksecurities.com/RevenueSharingAgreements.html</a>.</li> <li>We may buy and sell your investment through our own accounts which is called principal trading. When we do so, we can earn a profit on the transaction. When we are acting as principal, we are taking the opposite position that you are (buying when you are selling, selling when you are buying). This creates a conflict in that our interests are opposing. However, we take steps to mitigate these conflicts, and generally we don't hold our own positions, except to buy or sell from the marketplace to fill your order. Your financial professional will also receive compensation when we trade on a principal basis. We will send you a transaction confirmation which includes important disclosures, including our compensation.</li> <li>Some products offer higher compensation than others. For example, you pay a lower fee for a stock than you would on a variable annuity. This creates a conflict because we have an incentive to sell products with higher fees to you. However, we have procedures in place to mitigate these conflicts.</li> </ul> <p><b>More information</b> about fees, risks, expenses, and conflicts can be found in product prospectuses and transaction confirmations you receive at or before the completion of a transaction, and in our Regulation Best Interest disclosure here: <a href="http://www.kovacksecurities.com/RegBIDisclosure.html">http://www.kovacksecurities.com/RegBIDisclosure.html</a></p>	<ul style="list-style-type: none"> <li>KAI has the discretion to negotiate our fees, minimum account size, minimum annual fees, and other terms of each client's relationship with us.</li> <li>If your financial professional negotiates to pay certain transaction costs as part of the overall advisory fee, this presents a conflict since there is an incentive to trade your account less frequently or use a custodian that charges lower fees when a more favorable transaction may be available through another custodian. However, we maintain conflict mitigation policies and procedures to address this issue.</li> <li>KSI acts as the introducing broker-dealer for some transactions its financial professionals effect as the portfolio manager. We have a conflict of interest in recommending KSI and its custodians. We receive other economic benefits from our clearing brokers such as a share of margin interest revenues, which is based on the number and size of the accounts and balances carried with our clearing brokers. Receipt of economic benefits by us, our management personnel, or our financial professionals creates a conflict of interest that can impair our objectivity when recommending KSI or its custodians. However, we maintain conflict mitigation policies and procedures to address this issue.</li> <li>If we recommend that you engage the third-party asset manager to manage all or part of your portfolio, we will receive a portion of the advisory fees you pay the third-party adviser. The fees we receive for making referrals to investment advisers provides an economic incentive for us to make referrals to them. For this reason, we have a conflict of interest. However, we maintain policies and procedures to mitigate these conflicts.</li> <li>If we recommend an advisory account, there may be limitations on the types of products that are available in the account depending on the program you choose because that program's portfolios may be limited to certain mutual fund families and variable products, which will likely change from time to time.</li> </ul>

We receive compensation from the sponsoring investment company or insurance company (called revenue sharing). Product sponsors provide revenue sharing based on a variety of factors, including total funds we have placed with them (including sweep accounts like money market or bank sweep accounts), persistency or profitability of our business placed with them, and other factors. The cost may be directly or indirectly reflected in the premium or fee for the products we sell. Also, our financial professionals are eligible to participate in educational meetings/conferences by our sponsors and receive non-cash compensation that may include things like expense reimbursements and travel awards. The possibility of this additional compensation or sponsor reimbursements creates a conflict of interest. Since we benefit from these payments, a conflict exists in that it can influence our use of the product sponsor and the sale of their products. Additionally, our clearing brokers and custodians provide payments, credits, products, and services that influence our

use of them as clearing brokers and custodians. Further, we rely on our clearing broker to obtain best execution of our client's transactions. This creates a conflict that clients should consider in deciding whether or not to accept our recommendation of a clearing broker's services. We maintain procedures to mitigate the conflicts.

**Conversation Starters. Ask your financial professional.**

How might your conflicts of interest affect me, and how will you address them?

**How do your financial professionals make money?**

When we provide recommendations in a brokerage account	When we act as your investment advisor
<ul style="list-style-type: none"> <li>• When we make recommendations in your brokerage account, our financial professionals are primarily compensated by earning commissions or concessions on the products you buy and sell. Our financial professionals are compensated based on a tiered revenue grid. This means the more revenue they generate, the greater the percentage of the fees they receive, and KSI retains a smaller portion. This provides an incentive for the financial professional to sell more products and creates a conflict for the same reason. However, we maintain procedures to mitigate these conflicts.</li> <li>• Our financial professionals receive ongoing fees on certain products, often referred to as section 12b-1 fees (or marketing/distribution fees). These fees are typically a percentage of assets in the product and range between 0 – 1% depending on the product.</li> <li>• Our financial professionals are compensated in higher amounts for some products over others. One example is complex products that can require more knowledge, time and expertise to sell such as variable annuities and alternative investments. More complex products may not be appropriate for all investors. A conflict arises when the financial professional has a greater incentive to sell products that pay higher compensation. We maintain procedures to mitigate these conflicts.</li> </ul>	<ul style="list-style-type: none"> <li>• When we act as your investment advisor in an advisory account, our financial professionals are compensated based on a percentage of the advisory fee earned on your account. The advisory fee is a percentage of assets in your account charged on a quarterly basis. If you select financial planning services or are referred pursuant to a solicitor's agreement, they will earn a percentage of that fee.</li> <li>• Our financial professionals are compensated based on the amount of revenue they generate. This means the more revenue they generate, the greater the percentage of the revenue they receive, and the less we retain.</li> <li>• We enter into agreements with product sponsors and their affiliates that result in direct or indirect compensation to us and/or our financial professionals.</li> <li>• <b>For more details on the fees and compensation</b> visit <a href="http://www.adviserinfo.sec.gov">www.adviserinfo.sec.gov</a> and review our Form ADV, Part 2A brochure (Item 5).</li> </ul>

Our financial professionals receive non-cash compensation. For example, they receive incentives to attend certain events such as our annual conference or other marketing events if they meet certain sales goals. This is a conflict because it creates an incentive for them to recommend more transactions in client accounts.

**Do you or your financial professionals have legal or disciplinary history?**

Yes. Visit [www.investor.gov/CRS](http://www.investor.gov/CRS) for a free and simple search tool to research us and our financial professionals. For additional information about our financial professionals, visit FINRA BrokerCheck (<https://brokercheck.finra.org>). Also, find additional information about your investment advisor representative at <https://adviserinfo.sec.gov> or scan the QR code for more information.



**Conversation Starters. Ask your financial professional.**

As a financial professional, do you have any disciplinary history? For what type of conduct?

**Additional Information**

**For additional information about our services**, visit our web sites <http://kovacksecurities.com> and <http://kovackadvisors.com> and refer to your account and/or investment advisory agreement. You may also review additional product-specific disclosures at <http://www.kovacksecurities.com/RegBIDisclosure.html>. If you would like additional up-to-date information or a copy of this disclosure, please call our corporate offices at (954) 782-4771.

**Conversation Starters. Ask your financial professional.**

Who is my primary contact person? Is she or he a representative of an investment adviser or a broker-dealer?  
Who can I talk to if I have concerns about how this person is treating me?