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## **Form ADV Part 2A**

### **Client Brochure**

January 2, 2018

#### **Item 1 Cover Page**

This brochure (“Brochure”) provides information about the qualifications and business practices of Wealthfront Inc. (“Wealthfront” or the “Company”), a registered investment adviser. Registration does not imply a certain level of skill or training but only indicates that Wealthfront has registered its business with state and federal regulatory authorities, including the United States Securities and Exchange Commission (our SEC number is 801-69766). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

If you have any questions about the contents of this Brochure, please contact us at [844-995-8437](tel:844-995-8437) or [support@wealthfront.com](mailto:support@wealthfront.com). Additional information about Wealthfront is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) and on Wealthfront’s website, [www.wealthfront.com](http://www.wealthfront.com) (the “Site”).

## **Item 2 Material Changes**

Since the last updating amendment to Wealthfront's Form ADV Part 2 brochure on October 24, 2017, this Brochure has had no material changes.

### **Item 3 Table of Contents**

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## **Item 4 Advisory Business**

### **A. General Description of the Company**

Wealthfront is an automated investment adviser registered with the Securities and Exchange Commission (“SEC”). Wealthfront offers clients financial planning and portfolio management services through the Wealthfront Program (See Wealthfront Program Brochure attached). This Program, launched in December 2011 is made available via brokerage accounts that all Wealthfront clients open at WBC and that Wealthfront manages pursuant to discretionary investment authority granted by its clients. Wealthfront is a privately held company headquartered in Redwood City, CA. Additional information about Wealthfront’s products, structure and directors is provided on Part 1 of Wealthfront’s Form ADV which is available online at <http://www.adviserinfo.sec.gov> or at <http://www.wealthfront.com>. We encourage visiting our website [www.wealthfront.com](http://www.wealthfront.com) for additional information.

### **B. Summary of Wealthfront’s Advisory Services**

Wealthfront offers an automated investment service based on modern portfolio theory that makes it possible for anyone to access state-of-the-art portfolio management. Wealthfront’s investment objective is to seek maximum long-term, risk-adjusted, after-tax, net of fee returns.

#### **Taxable Accounts and Individual Retirement Accounts (“IRAs”)**

Each individualized taxable (“taxable”) account or IRA account is designed to be consistent with clients’ risk tolerances. Wealthfront creates an investment plan and manage a Client’s portfolio by seeking to identify: 1) the optimal asset classes in which to invest, 2) the most efficient exchange traded funds (“ETFs”) or other investments to represent each of those asset classes, 3) the ideal mix of asset classes based on the Client’s specific risk tolerance, and 4) the most appropriate time to rebalance the Client’s portfolio to maintain intended risk tolerance and optimal return for the Client’s risk level.

For taxable accounts, Wealthfront offers tax-loss harvesting (“TLH”) strategies. TLH is a technique used to lower your taxes while maintaining the expected risk and return profile of your portfolio. TLH harvests previously unrecognized investment losses to offset taxes due on your other gains and income by selling a security at loss to accelerate the realization of capital loss and investing the proceeds in a security with closely correlated risk and return characteristics. The realized loss can be applied to lower your tax liability and the tax savings can be reinvested to grow the value of your portfolio. Wealthfront’s basic TLH strategy, which is solely applied to ETFs, is available for all Clients. Advanced versions of TLH are available for Clients with larger account sizes and are applied to individual stocks that comprise the domestic equity allocation in their taxable account portfolios.

#### **College Savings Accounts**

Wealthfront also serves as the Client’s automated investment adviser for 529 college savings accounts (which consist for each 529 college savings plan participant Client of an account with

the sponsoring state trust fund and a related WBC brokerage account). Once again, Wealthfront's investment objective is to seek maximum, long-term, risk-adjusted, after-tax, net of fee returns. Based on the Client's individual risk tolerances, Wealthfront constructs an individual portfolio for the Client using up to nine of the 529 plan's separate municipal fund securities (each a "MFS"), of which each MFS contains a single underlying ETF. Wealthfront designs the Client's individual portfolio to provide a diversified asset allocation. Using the Client's risk score, Wealthfront assigns the Client's individual portfolio to one out of 20 glide paths, each of which determines how the Client's individual portfolio's allocations of designated portfolios will change over time. Each glide path gradually shifts the asset allocations of the MFSs in the Client's individual portfolio to progressively decreasing levels of expected risk as the beneficiary's expected matriculation date approaches. The Client's starting point along the specific glide path is determined by the beneficiary's expected time to matriculation.

### **Path Automated Financial Planning Services**

Wealthfront also provides, free of charge, certain financial planning capabilities to all its Clients via "Path." The purpose of Path is to help Wealthfront's Clients explore potential future financial scenarios, including retirement and college funding, and provide advice on reaching their financial goals. Path links to our clients' other financial accounts, including bank, brokerage, retirement, college savings, loan and credit card accounts and mortgages, to eliminate the need for the traditional financial planner interview that is usually required to acquire the necessary inputs to build a financial plan. Subject to change in the future on Wealthfront's discretion upon thirty days' prior notice, Wealthfront currently offers its Path financial planning services on a non-discretionary basis.

Wealthfront does not represent that its financial planning guidance is based on or meant to replace a comprehensive evaluation of a Client's entire financial plan considering all the Client's circumstances. Should a client choose to implement any recommendation made by Path, Wealthfront advises the Client to consult with his/her tax advisor regarding the Client's personal circumstances. Implementation of a financial plan recommendation is entirely at the Client's discretion, and currently information Clients enter into Path or obtained by linking other accounts does not automatically change their risk scores, which Clients must change by changing their personal financial information through the Site. While the data Wealthfront uses from third parties is believed to be reliable, Wealthfront cannot ensure the accuracy or completeness of data provided by clients or third parties.

### **C. Tailored Services and Investment Restrictions**

Wealthfront tailors its software based financial advisor service to the individual needs of each of its Clients, and subject to certain product features and account limitations that prospective investors should consider, as described further below and below in Item 7. Accounts for Clients ("Client Accounts" or "Accounts") are opened and maintained according to a Client Account Agreement ("Account Agreement") which describes the discretionary authority that a Client grants to Wealthfront to manage the Client's brokerage account at WBC (and in the case of college savings account, the sponsoring state trust fund account).

To tailor its software based financial advisor services to each Client, including its Path financial planning software, Wealthfront uses its software, which is based on academic behavioral economics research, to determine an investor's risk tolerance. Wealthfront asks each prospective Client a series of questions to evaluate both the individual's objective capacity to take risk and subjective willingness to take risk. We ask subjective risk questions to determine both the level of risk an individual is willing to take and the consistency among the answers. For example, if an individual is willing to take a lot of risk in one case and very little in another, then the individual is deemed inconsistent and is therefore assigned a lower risk tolerance score than the simple weighted average of her answers. We ask objective questions to estimate with as few questions as possible whether the individual is likely to have enough money saved at retirement to afford her likely spending needs. The greater the excess income, the more risk the Client is able to take. As noted in Item 7.3 a Client may not specify investments in which that Client Account may not invest except to a limited degree in connection with certain advanced TLH strategies with respect to a qualifying Client's investments in single U.S. stocks.

#### **D. Wealthfront Program**

Assets of Wealthfront are managed as part of the Wealthfront Program (See Wealthfront Program Brochure attached). A Wealthfront Program account (technically known as a "wrap account") is a professionally managed investment plan in which all expenses, including brokerage commissions, management fees, and administrative costs, are "wrapped" into a single charge. The Wealthfront Program provides clients investment guidance, portfolio management, and necessary basic brokerage services for one comprehensive fee based on a percentage of individual account assets.

Wealthfront may buy or sell securities consistent with analysis designed to seek an investment return suitable to the goals and risk profile of each distinct client account. Wealthfront determines an appropriate course of action by performing a review of each client's individual account and suitability parameters. This review may include type of account, goals, overall financial condition, income, assets, risk tolerance, and other factors unique to the individual client's situation. Based on these client parameters, Wealthfront will design, revise, and reallocate a client's custom portfolio. Wealthfront manages each client account on an individualized basis.

In order to implement Wealthfront's continuous investment advice, Wealthfront provides the portion of the Wealthfront Program pertaining portfolio management services only on a discretionary basis. Wealthfront will contact clients periodically to determine whether their financial situation or risk profile have changed, or if they want to modify their Account. In connection with its Path financial planning services, Wealthfront makes its recommendations on a non-discretionary basis.

#### **E. Discretionary and Nondiscretionary Assets**

As disclosed in Wealthfront's Form ADV Part 1, Wealthfront manages approximately \$9,263,500,000 in client assets through our software based financial advisor service on a discretionary basis. This total is calculated using the closing U.S. market prices from October

16, 2017. Wealthfront does not manage assets on a non-discretionary basis, but its Path financial planning services is non-discretionary.

## **Item 5 Fees and Compensation**

### **A. Advisory Fees**

Wealthfront is compensated for its advisory services by charging a fee, generally 0.25% annualized, based on the net market value of a Client's Account. Wealthfront reserves the right, in its sole discretion, to negotiate, reduce or waive the advisory fee for certain Client Accounts for any period of time determined solely by Wealthfront. In addition, Wealthfront may reduce or waive its fees for the Accounts of some Clients without notice to, or fee adjustment for, other Clients. Currently, Wealthfront waives its investment advisory fees for the first \$10,000 of assets in any Wealthfront investment advisory account(s).

### **Path Financial Planning**

Wealthfront provides Path, its financial planning service described above in Item 4, to all Clients free of charge.

### **Taxable Accounts and IRAs**

Wealthfront's software based financial advisor service charges a non-negotiable annualized fee of 0.25% on a Client's assets under management. In many cases Clients can have a portion of their assets managed for free. Annual fees are charged on a monthly basis as explained below.

Wealthfront's fees are not charged in advance and are calculated on a continuous basis and deducted from Clients' Accounts each month as follows: Wealthfront calculates a daily advisory fee, which is equal to the fee rate multiplied by the net market value of the Client's Account as of the close of trading on the New York Stock Exchange ("NYSE") (herein, "close of markets") on such day, or as of the close of markets on the immediately preceding trading day for any day when the NYSE is closed, and then divided by 365 (or 366 in any leap year). The advisory fee for a calendar month is equal to the total of the daily fees calculated during that month (less any deductions or fee waivers, e.g., for the fee waiver on the first \$10,000 of assets) and is deducted from Client Accounts no later than the tenth business day of the following month.

### **College Savings Accounts**

Wealthfront also charges 0.25% annualized fee based on the net market value of a college savings account for its investment advisory services in connection with the account. Currently, Wealthfront waives its investment advisory fees for the first \$10,000 of assets in any Wealthfront investment advisory account(s) including accounts in college savings account. In addition, Wealthfront waives its investment advisory fees for an additional \$15,000 of assets (\$25,000 of assets in total) for college savings accounts opened by Nevada residents, and this fee waiver applies to the aggregate of all of the Nevada resident's Wealthfront account assets.

This advisory fee is separate from the fees and expenses of the MFSs in which a Client invests in the Client's college savings account, which include the fees and expenses of the ETFs underlying such securities, the fees of the college savings plan recordkeeper and the fees of the state trust that issues the MFSs, which range from 0.10% to 0.46% of the assets in the Client's college savings account.

## **B. Other Account Fees**

Wealthfront is a "fee only" investment adviser, and other than its advisory fee described above, neither Wealthfront nor its employees receive or accept any direct or indirect compensation related to investments that are purchased or sold for Client Accounts. This means that Clients will not be sold products or services that create additional fees or compensation to benefit Wealthfront or its employees or its affiliates other than those described in this Brochure and on the Site. However, in addition to advisory fees, Clients may also pay other fees or expenses to third parties. The issuer of some of the securities or products we purchase for Clients, such as ETFs or other similar financial products, may charge product fees that affect Clients. Wealthfront does not charge these fees to Clients, and does not benefit directly or indirectly from any such fees. An ETF typically includes embedded expenses that may reduce the fund's net asset value, and therefore directly affect the fund's performance and indirectly affect a Client's portfolio performance or an index benchmark comparison. Expenses of an ETF may include management fees, custodian fees, brokerage commissions, and legal and accounting fees. ETF expenses may change from time to time at the sole discretion of the ETF issuer. Wealthfront discloses each ETF's current information, including expenses, on the Site. In addition, Clients who use the Portfolio Line of Credit offered by WBC to obtain a loan secured by the assets of their taxable Accounts will be charged interest on the outstanding balance.

### **Item 6 Performance-Based Fees and Side-by-Side Management**

Wealthfront does not charge performance-based fees. Our advisory fees are only charged as disclosed above in Item 5.

### **Item 7 Types of Clients**

The minimum amount required to open and maintain a Wealthfront Account is \$500. As a result of the automation associated with offering its services online, Wealthfront makes it possible for retail investors, as well as retirement accounts and trusts, to access its service with much lower account minimums than normally available in the industry. Clients have access to their Accounts through the Site. Additional requirements for opening an Account with Wealthfront are described in Item 4, above.

At any time, a Client may terminate an Account, or withdraw all or part of an Account (provided the Account balance does not fall below \$500 because of the withdrawal), or update her investment profile, which may initiate an adjustment in the Account's holdings. In that case, unless otherwise directed by the Client, Wealthfront will sell the securities in the Client Account



(or portion of the Account, in the case of a partial withdrawal or update) at market prices at or around the time of the termination, withdrawal or update. See Item 16 for a description of Wealthfront's discretionary investment authority, including the timing of Wealthfront's placement of Client trade orders. While Wealthfront seeks to respond to Client deposits, Client changes in risk profiles, Client withdrawal requests, including without limitation requests in connection with terminations, and other reasonable Client requests in a timely and reasonable manner, Wealthfront does not represent or guarantee that Wealthfront will respond to any such Client actions or requests immediately or in accordance with set time schedule.

Investors evaluating Wealthfront's software based financial advisor service should be aware that Wealthfront's relationship with Clients is likely to be different from the "traditional" investment advisor relationship in several aspects:

1. Wealthfront is a software based financial advisor which means each Client must acknowledge her ability and willingness to conduct her relationship with Wealthfront on an electronic basis. Under the terms of the Wealthfront Client Account Agreement and the WBC Customer Brokerage and Custody Agreement (the "Brokerage Agreement"), each Client agrees to receive all Account information and Account documents (including this Brochure and the Wealthfront Program Brochure), and any updates or changes to same, through her access to the Site and Wealthfront's electronic communications. Unless noted otherwise on the Site or within this Brochure, Wealthfront's advisory service, WBC's brokerage services, the signature for the Account Agreement and the Brokerage Agreement, and all documentation related to the advisory services are managed electronically. Wealthfront does make individual representatives available to discuss servicing matters with Clients.
2. To provide its advisory services and tailor its investment decisions to each Client's specific needs, Wealthfront collects information from each Client, including specific information about her investing profile such as financial situation, investment experience, and investment objectives. Wealthfront maintains this information in strict confidence subject to its Privacy Policy, which is provided on the Site. When customizing its investment solutions, Wealthfront relies upon the information received from a Client. Although Wealthfront contacts its Clients periodically as described further in Item 13 below, a Client must promptly notify Wealthfront of any change in her financial situation or investment objectives that might require a review or revision of her portfolio.
3. The software-based financial adviser service includes preselected ETFs for each asset class within the plan recommended to a Client. Wealthfront does not allow Clients to select their own ETFs because each ETF and asset class is considered to be part of the overall investment plan. However, Wealthfront does allow Clients with certain advanced TLH strategies to restrict Wealthfront from investing in the stock of a public company that employs the Client or other single U.S. stocks at the request of the Client.
4. Clients may not place orders to purchase or sell securities on a self-directed basis.

## **Item 8 Methods of Analysis, Investment Strategies and Risk of Loss**

### **A. Modern Portfolio Theory**

For its software-based financial advisor portfolio management service, Wealthfront provides Clients with investment advice that is based on Modern Portfolio Theory (MPT). MPT attempts to maximize a portfolio's expected return for a given amount of portfolio risk, or equivalently minimize risk for a given level of expected return, by selecting the proportions of various asset classes rather than selecting individual securities. Historically, rigorous MPT-based financial advice has been available primarily through certain high-end financial advisors. Wealthfront's goal is to enable anyone with at least \$500 to access the benefits of MPT.

Prior to the launch of the Wealthfront software-based financial advisor service, it was not practical to offer rigorous and complete MPT to everyone because delivering a complete solution was too complex. Specifically, the number of calculations required to identify an optimized asset allocation, the ideal securities to represent each asset class, and an individual's true risk tolerance are beyond the scope of free, web-based tools. The job becomes even more difficult when considering the importance of periodically rebalancing a portfolio to maintain a desired risk level.

To employ MPT properly, one must start with an accurate determination of an individual's objective and subjective tolerance for risk. Achieving accuracy requires sophisticated software applied to more detailed questions than are typically asked by advisers. Based on this risk analysis, Wealthfront seeks to create an individualized investment plan using the optimal asset classes in which to invest, the most efficient and inexpensive ETFs to represent each of those asset classes, and the ideal mix of asset classes based on the Client's specific risk tolerance. Wealthfront uses Mean Variance Optimization to rigorously evaluate every possible combination of the following eleven asset classes: US equities, foreign developed markets equities, emerging markets equities, dividend growth equities, real estate, natural resources, treasury inflation protected securities (TIPS), municipal bonds, corporate bonds, emerging markets bonds and US government bonds. Mean Variance Optimization uses the expected return and volatility for each asset class and the covariance among asset classes to find the combination that delivers the highest possible return for any given standard deviation of a portfolio's returns. Wealthfront however, must limit the number of assets classes for very small portfolios.

Wealthfront periodically reviews the entire population of more than 1,000 ETFs to identify the most appropriate ETFs to represent each asset class. We look for ETFs that minimize cost and tracking error and offer market liquidity. Many investors do not realize that ETFs do not exactly track the indexes they were created to mimic. Choosing an ETF with a low expense ratio that does not track the asset class recommended by our service runs the risk of sub-optimizing a Client's portfolio's performance. We choose ETFs that are expected to have sufficient liquidity to allow Client withdrawals at any time. Finally, we select ETFs that have conservative and shareholder-friendly securities lending policies.

In addition to choosing what we believe to be the best ETFs at the time, we explain in whitepapers on our website why we chose each one. We provide a detailed analysis of how the selected ETF stacked up against the second and third best choice for each asset class on the dimensions described in the paragraph above.

Wealthfront continuously monitors our Clients' portfolios and periodically rebalances them back to the Clients' target mix in an effort to optimize returns for the intended level of risk. We consider tax implications and the volatility associated with each of our chosen asset classes when deciding when and how to rebalance.

## **B. Tax-Loss Harvesting**

TLH is a technique used to lower your taxes while maintaining the expected risk and return profile of your portfolio. It harvests previously unrecognized investment losses to offset taxes due on your other gains and income by selling a security at loss to accelerate the realization of capital loss and investing the proceeds in a security with closely-correlated risk and return characteristics. The realized loss can be applied to lower your tax liability and the tax savings can be reinvested to grow the value of your portfolio. Wealthfront's basic TLH strategy, which is solely applied to ETFs, is available for all Clients. Advanced versions of TLH are available for Clients with larger account sizes and are applied to individual stocks that comprise the domestic equity allocation in their taxable account portfolios.

## **C. Long Term, Buy And Hold Investment Philosophy**

Wealthfront adheres to a long-term, buy-and-hold investment philosophy. While Wealthfront reserves the right to act otherwise if it feels that it is the best interests of its Clients, Wealthfront does not try to time the market and in general, Wealthfront intentionally does not react market movements in managing Client Accounts other than through rebalancing and tax-loss harvesting. Wealthfront believes that numerous academic and industry studies show that "*short-term fluctuations in market, which loom so large to investors, have little to do with the long-term accumulation of wealth.*" J. Siegel, Stocks for the Long Run (1977).

## **D. Risk Considerations**

Wealthfront cannot guarantee any level of performance or that any Client will avoid a loss of Account assets. **Any investment in securities involves the possibility of financial loss that Clients should be prepared to bear.**

When evaluating risk, financial loss may be viewed differently by each Client and may depend on many different risk items, each of which may affect the probability of adverse consequences and the magnitude of any potential losses. The following risks may not be all-inclusive, but should be considered carefully by a prospective Client before retaining Wealthfront's services. These risks should be considered as possibilities, with additional regard to their actual probability of occurring and the effect on a Client if there is in fact an occurrence.

**Market Risk** – The price of any security or the value of an entire asset class can decline for a variety of reasons outside of Wealthfront’s control, including, but not limited to, changes in the macroeconomic environment, unpredictable market sentiment, forecasted or unforeseen economic developments, interest rates, regulatory changes, and domestic or foreign political, demographic, or social events. If a Client has a high allocation in a particular asset class, it may negatively affect overall performance to the extent that the asset class underperforms relative to other market assets. Conversely, a low allocation to a particular asset class that outperforms other asset classes in a particular period will cause that Client Account to underperform relative to the overall market.

**Advisory Risk** – There is no guarantee that Wealthfront’s judgment or investment decisions about particular securities or asset classes will necessarily produce the intended results. It is possible that Clients or Wealthfront itself may experience computer equipment failure, loss of internet access, viruses, or other events that may impair access to Wealthfront’s software based financial advisory service. Wealthfront and its representatives are not responsible to any Client for losses unless caused by Wealthfront breaching its fiduciary duty.

**Software Risk** -- Wealthfront delivers its financial advisor services entirely through software. Consequently, Wealthfront rigorously designs, develops and tests its software extensively before putting such software into production with actual Client accounts and assets and periodically monitors the behaviors of such software after its deployment. Notwithstanding this rigorous design, development, testing and monitoring, it is possible that such software may not always perform exactly as intended or as disclosed on the Site, mobile app, blogs or other Wealthfront disclosure documents, especially in certain combinations of unusual circumstances. Wealthfront continuously strives to monitor, detect and correct any software that does not perform as expected or as disclosed. It is Wealthfront’s policy to ensure that any Clients who suffer financial harm due to any software that does not perform as expected or as disclosed as a result of a result of Wealthfront’s breach of fiduciary duty are made whole.

**Volatility and Correlation Risk** – Wealthfront’s Security selection process is based in part on a careful evaluation of past price performance and volatility to evaluate future probabilities. It is possible that different or unrelated asset classes may exhibit similar price changes in similar directions which may adversely affect a Client’s account, and may become more acute in times of market upheaval or high volatility. **Past performance is no guarantee of future results, and any historical returns, expected returns, or probability projections may not reflect actual future performance.**

**Liquidity and Valuation Risk** – High volatility and/or the lack of deep and active liquid markets for a security may prevent a Client from selling his or her securities at all, or at an advantageous time or price because Wealthfront’s executing broker-dealer may have difficulty finding a buyer and may be forced to sell at a significant discount to market value. Some securities (including ETFs) that hold or trade financial instruments may be adversely affected by liquidity issues as they manage their portfolios. While Wealthfront values the securities held in Client Accounts based on reasonably available exchange traded security data, Wealthfront may from time to time receive or use inaccurate data, which could adversely affect security

valuations, transaction size for purchases or sales, and/or the resulting advisory fees paid by a Client to Wealthfront.

**Credit Risk** – Wealthfront cannot control and Clients are exposed to the risk that financial intermediaries or security issuers may experience adverse economic consequences that may include impaired credit ratings, default, bankruptcy or insolvency, any of which may affect portfolio values or management. This risk applies to assets on deposit with any broker-dealer utilized by Client, notwithstanding asset segregation and insurance requirements that are beneficial to broker-dealer clients generally. In addition, exchange trading venues or trade settlement and clearing intermediaries could experience adverse events that may temporarily or permanently limit trading or adversely affect the value of Client securities. Finally, any issuer of securities may experience a credit event that could impair or erase the value of the issuer's securities held by a Client. Wealthfront seeks to limit credit risk by generally adhering to the purchase of ETFs, which are subject to regulatory limits on asset segregation and leverage such that fund shareholders are given liquidation priority versus the fund issuer; however, certain funds and products, which Wealthfront generally does not invest in, may involve higher issuer credit risk because they are not structured as a registered fund.

**Legislative and Tax Risk** - Performance may directly or indirectly be affected by government legislation or regulation, which may include, but is not limited to: changes in investment adviser / financial advisor or securities trading regulation; change in the U.S. government's guarantee of ultimate payment of principal and interest on certain government securities; and changes in the tax code that could affect interest income, income characterization and/or tax reporting obligations (particularly for ETF securities dealing in natural resources). Wealthfront does not engage in tax planning, and in certain circumstances a Client may incur taxable income on his or her investments without a cash distribution to pay the tax due.

**Tax Loss Harvesting Risk** - Clients who activate our tax-loss harvesting service are alerted to the following risks:

- **Clients should confer with their personal tax advisor regarding the tax consequences of investing with Wealthfront and engaging in the tax-loss harvesting strategy, based on their particular circumstances.** Clients and their personal tax advisors are responsible for how the transactions in the Client's account are reported to the Internal Revenue Service ("IRS") or any other taxing authority. Wealthfront assumes no responsibility to you for the tax consequences of any transaction.
- Wealthfront's tax-loss harvesting strategy is not intended as tax advice, and Wealthfront does not represent in any manner that the tax consequences described will be obtained or that Wealthfront's investment strategy will result in any particular tax consequence. The tax consequences of this strategy and other Wealthfront strategies are complex and may be subject to challenge by the IRS. This strategy was not developed to be used by, and it cannot be used by, any investor to avoid penalties or interest.
- When Wealthfront replaces investments with "similar" investments as part of the tax-loss harvesting strategy, it is a reference to investments that are expected, but are not

guaranteed, to perform similarly and that might lower a Client's tax bill while maintaining a similar expected risk and return on the Client's portfolio. **Expected returns and risk characteristics are no guarantee of actual performance.**

- A Client must notify Wealthfront of specific stocks in which the Client is prohibited from investing. If a Client instructs Wealthfront not to purchase certain stocks, Wealthfront will select an alternate stock to purchase on the Client's behalf or if Wealthfront deems no other stock as appropriate, not invest in an alternate stock. The Client shall notify Wealthfront immediately if you consider any investments recommended or made for the Account to violate such restrictions.
- The performance of the new securities purchased through the tax-loss harvesting service may be better or worse than the performance of the securities that are sold for tax-loss harvesting purposes.
- The effectiveness of the tax-loss harvesting strategy to reduce the tax liability of the client will depend on the client's entire tax and investment profile, including purchases and dispositions in a Client's (or Client's spouse's) accounts outside of Wealthfront and type of investments (e.g., taxable or nontaxable) or holding period (e.g., short-term or long-term). The utilization of losses harvested through the strategy will depend upon the recognition of capital gains in the same or a future tax period, and in addition may be subject to limitations under applicable tax laws, e.g., if there are insufficient realized gains in the tax period, the use of harvested losses may be limited to a \$3,000 deduction against income and distributions. Losses harvested through the strategy that are not utilized in the tax period when recognized (e.g., because of insufficient capital gains and/or significant capital loss carryforwards), generally may be carried forward to offset future capital gains, if any.
- Be aware that if the Client and/or the Client's spouse have other taxable or non-taxable investment accounts, and the Client holds in those accounts any of the securities (including options contracts) held in the Client's Wealthfront account, the Client cannot trade any of those securities 30 days before or after Wealthfront trades those same securities as part of the tax-loss harvesting strategy to avoid possible wash sales and, as a result, a nullification of any tax benefits of the strategy. For more information on the wash sale rule, please read [IRS Publication 550](#).
- Wealthfront only monitors for tax-loss harvesting for accounts within Wealthfront. The Client is responsible for monitoring their and their spouse's accounts outside of Wealthfront to ensure that transactions in the same security or a substantially similar security do not create a "wash sale." A wash sale is the sale at a loss and purchase of the same security or substantially similar security within 30 days of each other. If a wash sale transaction occurs, the IRS may disallow or defer the loss for current tax reporting purposes. More specifically, the wash sale period for any sale at a loss consists of 61 calendar days: the day of the sale, the 30 days before the sale, and the 30 days after the sale. The wash sale rule postpones losses on a sale, if replacement shares are bought around the same time. Wealthfront may lack visibility to certain wash sales, should they

occur as a result of external or unlinked accounts, and therefore Wealthfront may not be able to provide notice of such wash sale in advance of the Client's receipt of the IRS Form 1099.

- Except as set forth below, Wealthfront will monitor only a Client's (or client's spouse's) Wealthfront accounts to determine if there are unrealized losses for purposes of determining whether to harvest such losses. Transactions outside of Wealthfront accounts may affect whether a loss is successfully harvested and, if so, whether that loss is usable by the Client in the most efficient manner. A Client may also request that Wealthfront monitor the client's spouse's accounts or their IRA accounts at Wealthfront to avoid the wash sale disallowance rule. A client may request spousal monitoring online or by calling Wealthfront at (844) 995-8437. If Wealthfront is monitoring multiple accounts to avoid the wash sale disallowance rule, the first taxable account to trade a security will block the other account(s) from trading in that same security for 30 days.
- Under certain limited circumstances, there is a chance that Wealthfront trading attributed to tax-loss harvesting may create capital gains. In addition, tax-loss harvesting strategies may produce losses, which may not be offset by sufficient gains in the account.

**Potentially High Levels of Trading Risk** - Wealthfront's investment strategies, including portfolio rebalancing and tax-loss harvesting, can lead to high levels of trading. High levels of trading could result in (a) bid-ask spread expense; (b) trade executions that may occur at prices beyond the bid-ask spread (if quantity demanded exceeds quantity available at the bid or ask); (c) trading that may adversely move prices, such that subsequent transactions occur at worse prices; (d) trading that may disqualify some dividends from qualified dividend treatment; (e) unfulfilled orders or portfolio drift, in the event that markets are disorderly or trading halts altogether; and (f) unforeseen trading errors.

**Foreign Investing and Emerging Markets Risk** - Foreign investing involves risks not typically associated with U.S. investments, and the risks may be exacerbated further in emerging market countries. These risks may include, among others, adverse fluctuations in foreign currency values, as well as adverse political, social and economic developments affecting one or more foreign countries. In addition, foreign investing may involve less publicly available information and more volatile or less liquid securities markets, particularly in markets that trade a small number of securities, have unstable governments, or involve limited industry. Investments in foreign countries could be affected by factors not present in the U.S., such as restrictions on receiving the investment proceeds from a foreign country, foreign tax laws or tax withholding requirements, unique trade clearance or settlement procedures, and potential difficulties in enforcing contractual obligations or other legal rules that jeopardize shareholder protection. Foreign accounting may be less transparent than U.S. accounting practices and foreign regulation may be inadequate or irregular.

**ETF Risks, including Net Asset Valuations and Tracking Error** - ETF performance may not exactly match the performance of the index or market benchmark that the ETF is designed to track because 1) the ETF will incur expenses and transaction costs not incurred by any applicable index or market benchmark; 2) certain securities comprising the index or market benchmark

tracked by the ETF may, from time to time, temporarily be unavailable; and 3) supply and demand in the market for either the ETF and/or for the securities held by the ETF may cause the ETF shares to trade at a premium or discount to the actual net asset value of the securities owned by the ETF. Certain ETF strategies may from time to time include the purchase of fixed income, commodities, foreign securities, American Depositary Receipts, or other securities for which expenses and commission rates could be higher than normally charged for exchange traded equity securities, and for which market quotations or valuation may be limited or inaccurate.

Clients should be aware that to the extent they invest in ETF securities they will pay two levels of advisory compensation – advisory fees charged by Wealthfront plus any management fees charged by the issuer of the ETF. This scenario may cause a higher advisory cost (and potentially lower investment returns) than if a Client purchased the ETF directly.

An ETF typically includes embedded expenses that may reduce the fund's net asset value, and therefore directly affect the fund's performance and indirectly affect a Client's portfolio performance or an index benchmark comparison. Expenses of the fund may include ETF management fees, custodian fees, brokerage commissions, and legal and accounting fees. ETF expenses may change from time to time at the sole discretion of the ETF issuer. Wealthfront discloses each ETF's current information, including expenses, on the Site. ETF tracking error and expenses may vary.

**Inflation, Currency, and Interest Rate Risks** – Security prices and portfolio returns will likely vary in response to changes in inflation and interest rates. Inflation causes the value of future dollars to be worth less and may reduce the purchasing power of an investor's future interest payments and principal. Inflation also generally leads to higher interest rates, which in turn may cause the value of many types of fixed income investments to decline. In addition, the relative value of the U.S. dollar-denominated assets primarily managed by Wealthfront may be affected by the risk that currency devaluations affect Client purchasing power.

**College Savings Account Risks** – College Savings Accounts are subject to various risks, including but not limited to:

*Special Nature of Plan Interests* - The Client and the Client's beneficiary do not have access or rights to any assets of the state sponsoring our 529 Plan or any assets of the state trust of the Section 529 college savings plan (a "Plan") other than the assets credited to the Client's account for that beneficiary. The college savings account is an investment vehicle. College savings accounts are subject to certain risks including: (i) the possibility that the Client may lose money over short or even long periods of time; (ii) the risk of changes in applicable federal and state tax laws and regulations; (iii) the risk of Plan changes including changes in fees and expenses; and (iv) the risk that contributions to the college savings account may adversely affect the eligibility of the beneficiary or the Client for financial aid or other benefits. Some MFSs in a Client's college savings account carry more and/or different risks than others. Clients should weigh such risks with the understanding that they could arise at any time during the life of the Client's account.



*Municipal Fund Securities* - When the Client contributes to the college savings account, the Client's money will be invested in MFSs. An investment in the Client's college savings account is not a bank deposit. None of the Client's account, the principal the Client invests, nor any investment return is insured or guaranteed by (i) any state or any state agencies, instrumentalities or funds, (ii) any officer, official, staff member of any state, (iii) any Plan or any program manager of any such Plan, (iv) any board of any state trust issuing MFSs for a Plan (a "Board"), (v) any such state trust (as "State Trust"), (vi) Wealthfront, (vii) each of their respective affiliates, officials, officers, directors, employees and representatives, (viii) the federal government, (ix) the Federal Deposit Insurance Corporation ("FDIC"), or (x) any other governmental agency. Investment returns will vary depending upon the performance of the designated portfolios in the Client's account. A Client could lose all or a portion of the Client's investment.

*Relatively Short Investment Time Horizon* - Relative to investing for retirement, the holding period for college savings investors is very short (e.g., 5-20 years versus 30-60 years). Also, the need for liquidity during the withdrawal phase (to pay for qualified higher education expenses) generally is very important. Clients should strongly consider the level of risk they wish to assume when completing the risk questionnaire upon account opening.

*Limited Investment Direction* - Clients may not direct the underlying investments in their college savings account. The ongoing money management is the responsibility of Wealthfront. The only manner in which Clients can affect the money management is to change their risk score, which is limited to two times per year, or upon the change of the beneficiary. Once the permitted two per calendar year risk score changes are made in the Client's account, a subsequent risk score change in the Client's account within the same calendar year will not be processed. The choice of the underlying investments of the MFSs is subject to the approval of the Board. Automatic investment exchanges that occur as the Client's assets move through the glide path do not count towards the Client's twice per calendar year investment exchange limit.

*Liquidity Risk* - Investments in a Plan are considered less liquid than other types of investments (e.g., investments in mutual fund shares) because the circumstances in which a Client may withdraw money from a Plan account without a penalty or adverse tax consequences are significantly more limited.

*Potential Changes to the Plan* - Boards generally reserve the right, in their sole discretion, to discontinue the Plan or to change any aspect of the Plan. For example, the Board may change the Plan's fees and expenses; add, subtract, or merge the MFSs; close a MFS to new investors; or change the program manager or the underlying investment(s) of a MFS. Depending on the nature of the change, a Client may be required to, or prohibited from, participating in the change with respect to accounts established before the change. A particular program manager may not necessarily continue as the Plan's program manager, and Wealthfront may not necessarily continue as investment adviser and distributor to a Plan (although Wealthfront will continue as the Client's investment adviser until either Wealthfront or the Client terminates that investment advisory relationship).

Changes to a Plan may or may not be beneficial to Clients. The Board may terminate the Plan by giving written notice to the Client, but even if the Board terminates the Plan, the Client and the Client's beneficiary's rights to the Client's account assets will be unaffected. An MFS may be temporarily uninvested during a transition from one investment underlying an MFS to another underlying investment. The transaction costs associated with any liquidation, as well as any market impact on the value of the securities being liquidated, will be borne by the MFS which ultimately may impact the individual portfolios holding that MFS.

*Status of Federal and State Law and Regulations Governing a Plan* - Federal and state law and regulations governing the administration of Plans could change in the future. In addition, federal and state laws on related matters, such as the funding of higher education expenses, treatment of financial aid, and tax matters are subject to frequent change. It is unknown what effect these kinds of changes could have on a college savings account. Clients should also consider the potential impact of any other state laws on their account. Clients should consult their tax advisor for more information.

*Eligibility for Financial Aid* - The treatment of college savings account assets may have an adverse effect on the beneficiary's eligibility to receive assistance under various federal, state, and institutional financial aid programs.

*No Guarantee That Investments Will Cover Qualified Higher Education Expenses; Inflation and Qualified Higher Education Expenses* - There is no guarantee that the money in a Client's college savings account will be sufficient to cover all of a beneficiary's qualified higher education expenses, even if contributions are made in the maximum allowable amount for the beneficiary. The future rate of increase in qualified higher education expenses is uncertain and could exceed the rate of investment return earned by a Plan account over any relevant period of time.

Investors in any Plan should read the Plan's offering documents and any related participation agreement carefully before investing or sending money.

**Portfolio Line of Credit** - Clients who choose to use WBC's Portfolio Line of Credit are alerted to the following risks:

- Portfolio Line of Credit is a margin loan product offered by WBC exclusively to clients of Wealthfront. Clients should review the risks listed below and in WBC's [Margin Handbook](#), and consider them before borrowing.
- Clients can lose more funds than deposited in their margin account. A decline in the value of securities that are purchased on margin may require Clients to provide WBC with additional funds to avoid the forced sale of those securities or other securities or assets in their margin account(s).
- WBC can force the sale of securities or other assets in Client margin account(s). If the equity in a Client margin account falls below the maintenance margin requirements, or

our higher “house” requirements, WBC can sell the securities or other assets in any of the Client’s margin account(s) held with WBC to cover the margin deficiency. Clients also will be responsible for any shortfall in the margin account after such a sale.

- WBC can sell Client securities or other assets in margin accounts without contacting the Client. Some investors mistakenly believe that a brokerage firm must contact them for a margin call to be valid, and that the brokerage firm cannot liquidate securities or other assets in their accounts to meet the call unless the brokerage firm has contacted them first. This is not the case. While WBC will attempt to notify Clients of margin calls, WBC is not required to do so. However, even if WBC has contacted a Client and provided a specific date by which the Client can meet a margin call, WBC 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 or other assets in their account(s) are liquidated or sold by WBC to meet a margin call. Because the securities are collateral for the margin loan, WBC has the right to decide which security to sell in order to protect its interests.
- WBC can increase its “house” maintenance margin requirements at any time and are not required to provide advance written notice to Clients. These changes in WBC’s policy often take effect immediately and may result in the issuance of a maintenance margin call. A Client failure to satisfy the call may cause WBC to liquidate or sell securities in Client margin account(s).
- 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 a Client under certain conditions, a Client does not have a right to the extension.

### **Item 9 Disciplinary Information**

Like all registered investment advisers, Wealthfront is obligated to disclose any disciplinary event that might be material to any Client when evaluating our services.

Wealthfront does not have any material legal, financial, regulatory, or other “disciplinary” item to report to any Client. This statement applies to both Wealthfront and to every Wealthfront employee.

### **Item 10 Other Financial Industry Activities and Affiliations**

Wealthfront uses its wholly-owned subsidiary, WBC, to effect transactions on behalf of Wealthfront’s Clients for non-college savings accounts. WBC is both a carrying and an introducing broker registered with the Financial Industry Regulatory Authority and the U.S. Securities and Exchange Commission, whose sole purpose is to service Wealthfront’s Clients and carry accounts that Wealthfront manages pursuant to discretionary authority granted to

Wealthfront by its Clients. For Accounts other than college savings accounts, WBC, as a broker-dealer, has entered into an omnibus clearing agreement with RBC Correspondent Services (“RBC CS,” or “Clearing Broker”). WBC instructs the Clearing Broker on behalf of Wealthfront to clear and settle Wealthfront Client transactions on an omnibus basis for Client securities orders that WBC currently places with either Citadel LLC and Virtu Financial (the “Approved Brokers”). The Clearing Broker also has omnibus custody of Client cash balances and securities positions.

For college savings accounts, Wealthfront uses WBC to effect Plan MFS transactions on behalf of Clients by placing purchase and redemption orders with the Plan recordkeepers and by holding funds pending their investment in Plan MFSs and holding proceeds of redemptions of Plan MFSs pending disbursement per Client instructions.

WBC also exclusively offers its Portfolio Line of Credit, a margin loan product, to Wealthfront Clients with taxable margin account balances that exceed \$100,000.

### **Item 11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

Wealthfront’s paramount ethical, professional, and legal duty is to act at all times as a fiduciary to its Clients. This means that Wealthfront puts the interests of its Clients *ahead of its own*, and carefully manages for any perceived or actual conflict of interest that may arise in relation to its advisory services. Wealthfront has adopted a Code of Ethics, which is designed to ensure that we meet our fiduciary obligation to Clients, enhance our culture of compliance within the firm, and detect and prevent any violations of securities laws.

Wealthfront’s Code of Ethics (the “Code”) establishes standards of conduct for all Wealthfront’s “Employees” (as defined in the Code), including all officers, directors, employees, certain contractors and others, and is consistent with the code of ethics requirements of Rule 204A-1 under the Investment Advisers Act of 1940, as amended. The Code includes general requirements that all Employees comply with their fiduciary obligations to Clients and applicable securities laws, and specific requirements relating to, among other things, personal trading, insider trading, conflicts of interest, and confidentiality of client information.

Each new Wealthfront Employee receives a copy of the Code when hired or engaged by Wealthfront. Wealthfront sends copies of any amendments to the Code to all Supervised Persons, who must acknowledge in writing having received the Code and the amendments. Annually or as otherwise required, each Supervised Person must confirm to Wealthfront that he or she has complied with the Code during such preceding period.

With certain exceptions specified in the Code, under the Code, Wealthfront’s Employees may personally invest in securities recommended by Wealthfront, specifically the ETFs recommended for each asset class and individual large and mid-capitalization stocks recommended for advanced forms of TLH. Transactions in ETFs have been pre-approved for trading by Wealthfront’s Chief Compliance Officer based on the security’s liquidity profile and structural characteristics. Wealthfront’s Employees may also buy or sell specific securities for

their own accounts that are not purchased or sold for Clients. Under certain circumstances, Employees may

also buy and sell securities that are bought or sold for Clients. These personal transactions require pre-approval from Wealthfront's compliance department who determines if any actual or perceived conflicts exists with Clients. These personal securities transactions are subject to certain limitations such as the size of the trade and the market capitalization size of the issuer company. Wealthfront monitors the securities transactions of all Employees and investigates any failure to receive pre-clearance as well as any unusual patterns that it detects. It also requires all Employees to report any violations of the Code promptly to Wealthfront's Chief Compliance Officer. The complete Code of Ethics is available to any client or prospective Client upon request.

### **Item 12 Brokerage Practices**

Wealthfront places all trade orders for securities transaction on behalf of Client Accounts solely with WBC, with whom Clients must open brokerage accounts if they are to become Wealthfront financial advisory clients. WBC currently has reviewed and approved two different broker-dealer firms to execute orders for all Client taxable and IRA account securities transactions, namely the "Approved Brokers." WBC clears and settles all Client taxable and IRA account trade order securities transactions with RBC CS on an omnibus basis, and all costs associated with the clearing and settlement of such securities transactions are borne by WBC. Clients also do not pay any securities transaction costs (e.g., commissions) for trades executed through the two Approved Brokers, as Client trade orders are executed on a principal basis by the Approved Brokers. Further, WBC does not receive any compensation from the Clients, the Approved Brokers or third parties in connection with such transactions.

Wealthfront seeks to ensure that its Client taxable and IRA accounts receive the best overall execution for securities transactions from the Approved Brokers by continuing to monitor and review the best execution capability of the Approved Brokers. When assessing the best execution capability of the Approved Brokers, Wealthfront will consider the following factors: execution speed, price improvement versus the national best bid and offer (NBBO) and overall execution quality among other factors. To the extent that an Approved Broker's best execution capability does not appear to meet the quality of best execution on a consistent basis, Wealthfront would look to remove and replace such broker from the Approved Broker list.

Wealthfront does not engage in any "soft dollar" practices involving the receipt of research or other brokerage service in connection with Client transactions, nor does Wealthfront compensate or otherwise reward any brokers for client referrals.

For all Clients other than Clients participating in Wealthfront's Selling Program, Wealthfront does not aggregate orders for a Client Account with orders of other Clients. Consequently, seeking fairness to all of its Clients, Wealthfront submits Client Accounts transactions orders pursuant to a randomized selection process seeking to ensure that each Client Account has generally equal priority over time. By not aggregating transaction orders for a Client's Accounts with orders of other Clients, Clients may receive disparate prices from trading at different times during the day.

In the interest of better trade execution for its Selling Plan Clients, Wealthfront generally does, but is not required to, aggregate transaction orders for a Client Account with transaction orders of other Clients. If a Client's transaction orders are aggregated, the average price of the securities purchased or sold in such a transaction may be determined, and a Client may be charged or credited, as the case may be, the average transaction price. As a result, the price may be either more or less favorable to the Client than it would be if similar transactions were not being executed concurrently for other Accounts.

Wealthfront places all 529 college savings account purchase and redemption trade orders with WBC, who in turn must transmit such trade orders exclusively to the 529 plan recordkeeper.

### **Item 13 Review of Accounts**

Wealthfront provides all Clients with continuous access via the Site to prompt reporting information about Account status, securities positions and balances. Clients may also receive periodic e-mail communications describing portfolio performance, Account information, and product features.

Wealthfront's software-based financial advisor service assumes that a portfolio created using MPT-based techniques will not stay optimized over time and must be periodically rebalanced back to its original targets to maintain the intended risk level and asset allocations. Wealthfront reviews each Client's Account when it is opened and using software, continuously monitors and periodically rebalances each Client's portfolio to seek to maintain a Client's targeted risk tolerance and optimal return for the Client's risk level. Wealthfront also conducts reviews when Clients make a changes to their risk profiles. Wealthfront considers tax implications in taxable accounts and the volatility associated with each of its chosen asset classes when deciding when and how to rebalance.

On a quarterly basis, Wealthfront contacts each Client to remind them to review and update the profile information they previously provided. Wealthfront also requests that Clients reconfirm the same information on an annual basis. These notifications and confirmations include a link to the Client's current information and contact information for the Wealthfront support team. Currently the Wealthfront team members whose tasks include supervising, arranging and responding to these notifications, confirmations and reviews are: the Client Services Manager and the Client Services team.

Wealthfront periodically reviews the ETFs used for Client portfolios. A committee comprised of Wealthfront's CEO Andrew Rachleff and certain other Wealthfront officers who are not members of Wealthfront investment research team approves these reviews. The committee has the authority, if necessary, to remove, add or replace an ETF from the portfolios advised by Wealthfront.

## **Item 14 Client Referrals and Other Compensation**

Wealthfront expects from time to time to run promotional campaigns to attract Clients to open Accounts on the Site. These promotions may include additional Account services or products offered on a limited basis to select Clients, more favorable fee arrangements, and/or reduced or waived advisory fees for Clients, including Wealthfront's Invite Program pursuant to which Clients may invite friends, family and others to open a Wealthfront Account. Wealthfront waives its advisory fee on \$5,000 of Account assets for both the referring Client and the referred Client for each referral. Wealthfront may also invite non-Clients to open a Wealthfront Account via the Invite Program. For non-Clients who become Clients via direct invitation from Wealthfront, Wealthfront will waive its advisory fee on a predetermined amount of the Client's Account assets.

These arrangements may create an incentive for a third party or other existing Client to refer prospective Clients to Wealthfront, even if the third party would otherwise not make the referral. These arrangements may also create a conflict of interest for a Client to maintain a certain level of assets managed through Wealthfront if doing so would result in eligibility to receive an incentive, bonus or additional compensation.

Wealthfront may also pay pre-determined fees to third parties for directing new users to Wealthfront, which may be in the form of so-called CPM, CPC or CPA arrangements (respectively, impressions, clicks or acquisition through other websites). For example, Wealthfront advertises on various social media and other websites, including sites on which bloggers may write articles about Wealthfront and its services, and pays an advertising fee based upon the potential client leads (but not new client account openings) generated by those advertisements. Wealthfront exercises no editorial control over such sites.

While it is not a common practice, Wealthfront from time to time has engaged solicitors whom it pays for Client referrals. Wealthfront discloses this practice in writing to the affected Clients and complies with the requirements of Rule 206(4)-3 under the Investment Advisers Act of 1940, as amended, to the extent required by applicable law.

## **Item 15 Custody**

Wealthfront is deemed to have custody of Client funds due to its affiliation with WBC, which maintains client funds as a qualified custodian, primarily cash not held by RBC CS. Wealthfront provides instructions to WBC regarding the investment of the Client's assets (see Item 10).

Each Client receives Account information, including trade confirmations and/or monthly account statements, directly from her Broker by logging into her Wealthfront account. Each Client should carefully review this information and compare it with information provided by Wealthfront when they are evaluating Account performance, securities holdings, and transactions. While Wealthfront reconciles trading information with Brokers on a regular basis and provides Account information to Clients on the Site, a Client may experience differences in the information due to pending transactions, dividends, corporate actions, cash movements or withdrawals, or other activity. Only the Broker's (or other third party's) trading confirmations

and statements represent the official records of a Client's Account.

### **Item 16 Investment Discretion**

Wealthfront requires that a Client who decides to retain Wealthfront as her investment adviser must complete and execute an Account Agreement. Under the terms of the Account Agreement,

Wealthfront assumes full discretionary trading and investment authority over the Client's assets held with WBC. This means that Wealthfront is given full authority under a power of attorney arrangement to select the timing, size, and identity of securities to buy and sell for the Client as well as enter into, amend or terminate contracts relating to the account. Additional information about the Account Agreement can be found in Items 4 and 7 above.

A Client should understand that subject only to Wealthfront's fiduciary duties, Wealthfront's full discretionary trading and investment authority over the Client's assets held with the Broker (and the Client's college savings accounts) means that the timing, size, and identity of securities to buy and sell for trades for Client Accounts is completely within Wealthfront's discretionary authority, and while Wealthfront seeks to respond to Client deposits, Client changes in risk profiles, Client withdrawal requests and other reasonable Client requests in a timely and reasonable manner, Wealthfront does not represent or guarantee that Wealthfront will respond to any such Client actions or requests immediately or in accordance with set time schedule. Further, Wealthfront is not responsible to Client for any failures, delays and/or interruptions in the timely or proper execution of trades or any other trading instructions placed by Wealthfront on behalf of Client through WBC due to any reason or no reason, including without limitation any or all of the following, which are likely to happen from time to time: (A) any kind of interruption of the services provided by WBC or its clearing or executing broker-dealers or Wealthfront's ability to communicate with WBC or its clearing or executing broker-dealers (B) hardware or software malfunction, failure or unavailability; (C) WBC system outages; (D) internet service failure or unavailability; (E) the actions of any governmental, judicial or regulatory body; and/or (F) force majeure.

Subject to change in the future on Wealthfront's discretion upon thirty days' prior notice, Wealthfront currently offers its Path financial planning services on a non-discretionary basis.

### **Item 17 Voting Client Securities**

Wealthfront, as a matter of policy and as a fiduciary to our clients, has responsibility for voting proxies for portfolio securities consistent with the best economic interests of the clients. Our firm maintains written policies and procedures as to the handling, research, voting and reporting of proxy voting and makes appropriate disclosures about our firm's proxy policies and practices. Our policy and practice includes the responsibility to monitor corporate actions, receive and vote client proxies and disclose any potential conflicts of interest as well as making information available to clients about the voting of proxies for their portfolio securities and maintaining relevant and required records. Clients may request information regarding how Wealthfront voted a client's proxies, and clients may request a copy of the firm's proxy policies and procedures by



emailing [support@wealthfront.com](mailto:support@wealthfront.com). Clients should not become or continue as a Wealthfront advisory Clients if they wish to vote such proxies.

## **Item 18 Financial Information**

This Item is not applicable because Wealthfront does not require or solicit the prepayment of any advisory fees, and does not have any adverse financial condition that is reasonably likely to impair our ability to continuously meet our contractual commitments to our Clients.



# wealthfront

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Redwood City, CA 94063

[www.wealthfront.com](http://www.wealthfront.com)

## **Form ADV Part 2B Client Brochure Supplement**

**January 2, 2018**

This Brochure Supplement provides information about certain Wealthfront employees listed below that supplements the Wealthfront Brochure you should have received above. Please contact Wealthfront at [844-995-8437](tel:844-995-8437) or [support@wealthfront.com](mailto:support@wealthfront.com) if you did not receive Wealthfront's Brochure or if you have any questions about the contents of this Brochure Supplement. Additional information about Wealthfront's supervised persons is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Wealthfront's discretionary investment advice is provided by a team comprised of more than four Supervised Persons, and Wealthfront has provided group supplementary information below for the four supervised persons with the most significant responsibility for the day-to-day advice provided to Clients.

### **Burton Malkiel, born 1932**

#### Education

BS, Harvard University, 1953

MBA, Harvard University, 1955

Ph.D., Princeton University, 1964

#### Business Background

Associate, Investment Banking, Smith Barney & Co. 1958 -1960

1964 - present Princeton University (now Professor Emeritus)

2012 - present Chief Investment Officer, Wealthfront Inc.

2012 - present Chief Investment Officer, AlphaShares, LLC

Disciplinary Information

None

Other Business Activity

Director: Theravance, Inc.; Genmab A/S; Vanguard Europe

Editorial Board Member, Emerging Markets Review and Applied Financial Economics

Supervision:

Dr. Malkiel is supervised by Andrew Rachleff.

**Jakub Jurek, born 1980**

Education

AB, Harvard University, 2002

Ph.D, Harvard University, 2008

Business Background

2008 - 2014 Assistant Professor, Princeton University, Bendheim Center for Finance

2014 - 2016 Visiting Assistant Professor, University of Pennsylvania, The Wharton School

2016 – present Wealthfront Inc., Vice President of Research

Disciplinary Information

None

Other Business Activities

None

Supervision

Dr. Jurek is supervised by Andrew Rachleff.

**Andrew Rachleff, born 1958**

Education

BS, University of Pennsylvania, 1980

MBA, Stanford University Graduate School of Business, 1984

Business Background

1995 –2005 General Partner, Benchmark Capital

2005 – present Lecturer, Stanford University Graduate School of Business

2007 – 2013 President & CEO, Wealthfront Inc.

2013 – 2016 Executive Chairman, Wealthfront Inc.

2016 – Present Chairman, Chief Executive Officer & President, Wealthfront Inc.

Disciplinary Information

None

Other Business Activity

None

Supervision

Mr. Rachleff serves as the Chairman, Chief Executive Officer & President of Wealthfront, and as such is not subject to additional supervision.



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[www.wealthfront.com](http://www.wealthfront.com)

## **Wealthfront Program Brochure**

January 2, 2018

### **Item 1 Cover Page**

This wrap fee program brochure (“Brochure”) provides information about the qualifications and business practices of Wealthfront Inc. (“Wealthfront” or the “Company” or “we” or “us”), an investment adviser registered with the United States Securities and Exchange Commission (the “SEC”). Registration does not imply a certain level of skill or training but only indicates that Wealthfront has registered its business with state and federal regulatory authorities, including the SEC (our SEC number is 801-69766). The information in this Brochure has not been approved or verified by the SEC or by any state securities authority.

If you have any questions about the contents of this Brochure, please contact us at [844-995-8437](tel:844-995-8437) or [support@wealthfront.com](mailto:support@wealthfront.com). Additional information about Wealthfront is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) and on Wealthfront’s website, [www.wealthfront.com](http://www.wealthfront.com).

## **Item 2 Material Changes**

Since the last updating amendment to Wealthfront's Form ADV Part 2 brochure on October 24, 2017, this Brochure has had no material changes.

### **Item 3 Table of Contents**

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

### **A. Advisory Fees**

Wealthfront is compensated for its advisory services by charging a fee, generally 0.25% annualized, based on the net market value of a Client's Account. Wealthfront reserves the right, in its sole discretion, to negotiate, reduce or waive the advisory fee for certain Client Accounts for any period of time determined solely by Wealthfront. In addition, Wealthfront may reduce or waive its fees for the Accounts of some Clients without notice to, or fee adjustment for, other Clients. Currently, Wealthfront waives its investment advisory fees for the first \$10,000 of assets in any Wealthfront investment advisory account(s).

### **Path Financial Planning**

Wealthfront provides Path, its financial planning service described above in Item 4, to all Clients free of charge.

### **Taxable Accounts and IRAs**

Wealthfront's software based financial advisor service charges a non-negotiable annualized fee of 0.25% on a Client's assets under management. In many cases Clients can have a portion of their assets managed for free. Annual fees are charged on a monthly basis as explained below.

Wealthfront's fees are not charged in advance and are calculated on a continuous basis and deducted from Clients' Accounts each month as follows: Wealthfront calculates a daily advisory fee, which is equal to the fee rate multiplied by the net market value of the Client's Account as of the close of trading on the New York Stock Exchange ("NYSE") (herein, "close of markets") on such day, or as of the close of markets on the immediately preceding trading day for any day when the NYSE is closed, and then divided by 365 (or 366 in any leap year). The advisory fee for a calendar month is equal to the total of the daily fees calculated during that month (less any deductions or fee waivers, e.g., for the fee waiver on the first \$10,000 of assets) and is deducted from Client Accounts no later than the tenth business day of the following month.

### **College Savings Accounts**

Wealthfront also charges 0.25% annualized fee based on the net market value of a college savings account for its investment advisory services in connection with the account. Currently, Wealthfront waives its investment advisory fees for the first \$10,000 of assets in any Wealthfront investment advisory account(s) including accounts in college savings account. In addition, Wealthfront waives its investment advisory fees for an additional \$15,000 of assets (\$25,000 of assets in total) for college savings accounts opened by Nevada residents, and this fee waiver applies to the aggregate of all of the Nevada resident's Wealthfront account assets.

This advisory fee is separate from the fees and expenses of the MFSs in which a Client invests in the Client's college savings account, which include the fees and expenses of the ETFs underlying such securities, the fees of the college savings plan recordkeeper and the fees of the

state trust that issues the MFSs, which range from 0.10% to 0.46% of the assets in the Client's college savings account.

## **B. Other Account Fees**

Wealthfront is a "fee only" investment adviser, and other than its advisory fee described above, neither Wealthfront nor its employees receive or accept any direct or indirect compensation related to investments that are purchased or sold for Client Accounts. This means that Clients will not be sold products or services that create additional fees or compensation to benefit Wealthfront or its employees or its affiliates other than those described in this Brochure and on the Site. However, in addition to advisory fees, Clients may also pay other fees or expenses to third parties. The issuer of some of the securities or products we purchase for Clients, such as ETFs or other similar financial products, may charge product fees that affect Clients. Wealthfront does not charge these fees to Clients, and does not benefit directly or indirectly from any such fees. An ETF typically includes embedded expenses that may reduce the fund's net asset value, and therefore directly affect the fund's performance and indirectly affect a Client's portfolio performance or an index benchmark comparison. Expenses of an ETF may include management fees, custodian fees, brokerage commissions, and legal and accounting fees. ETF expenses may change from time to time at the sole discretion of the ETF issuer. Wealthfront discloses each ETF's current information, including expenses, on the Site. In addition, Clients who use the Portfolio Line of Credit offered by WBC to obtain a loan secured by the assets of their taxable Accounts will be charged interest on the outstanding balance.

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

The minimum amount required to open and maintain a Wealthfront Account is \$500. As a result of the automation associated with offering its services online, Wealthfront makes it possible for retail investors, as well as retirement accounts and trusts, to access its service with much lower account minimums than normally available in the industry. Clients have access to their Accounts through the Site. Additional requirements for opening an Account with Wealthfront are described in Item 4, above.

At any time, a Client may terminate an Account, or withdraw all or part of an Account (provided the Account balance does not fall below \$500 because of the withdrawal), or update her investment profile, which may initiate an adjustment in the Account's holdings. In that case, unless otherwise directed by the Client, Wealthfront will sell the securities in the Client Account (or portion of the Account, in the case of a partial withdrawal or update) at market prices at or around the time of the termination, withdrawal or update. See Item 16 for a description of Wealthfront's discretionary investment authority, including the timing of Wealthfront's placement of Client trade orders. While Wealthfront seeks to respond to Client deposits, Client changes in risk profiles, Client withdrawal requests, including without limitation requests in connection with terminations, and other reasonable Client requests in a timely and reasonable manner, Wealthfront does not represent or guarantee that Wealthfront will respond to any such Client actions or requests immediately or in accordance with set time schedule.

Investors evaluating Wealthfront's software based financial advisor service should be aware that Wealthfront's relationship with Clients is likely to be different from the "traditional" investment advisor relationship in several aspects:

1. Wealthfront is a software based financial advisor which means each Client must acknowledge her ability and willingness to conduct her relationship with Wealthfront on an electronic basis. Under the terms of the Wealthfront Client Account Agreement and the WBC Customer Brokerage and Custody Agreement (the "Brokerage Agreement"), each Client agrees to receive all Account information and Account documents (including this Brochure and the Wealthfront Program Brochure), and any updates or changes to same, through her access to the Site and Wealthfront's electronic communications. Unless noted otherwise on the Site or within this Brochure, Wealthfront's advisory service, WBC's brokerage services, the signature for the Account Agreement and the Brokerage Agreement, and all documentation related to the advisory services are managed electronically. Wealthfront does make individual representatives available to discuss servicing matters with Clients.
2. To provide its advisory services and tailor its investment decisions to each Client's specific needs, Wealthfront collects information from each Client, including specific information about her investing profile such as financial situation, investment experience, and investment objectives. Wealthfront maintains this information in strict confidence subject to its Privacy Policy, which is provided on the Site. When customizing its investment solutions, Wealthfront relies upon the information received from a Client. Although Wealthfront contacts its Clients periodically as described further in Item 13 below, a Client must promptly notify Wealthfront of any change in her financial situation or investment objectives that might require a review or revision of her portfolio.
3. The software-based financial adviser service includes preselected ETFs for each asset class within the plan recommended to a Client. Wealthfront does not allow Clients to select their own ETFs because each ETF and asset class is considered to be part of the overall investment plan. However, Wealthfront does allow Clients with certain advanced TLH strategies to restrict Wealthfront from investing in the stock of a public company that employs the Client or other single U.S. stocks at the request of the Client.
4. Clients may not place orders to purchase or sell securities on a self-directed basis.

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

### **A. Modern Portfolio Theory**

For its software-based financial advisor portfolio management service, Wealthfront provides Clients with investment advice that is based on Modern Portfolio Theory (MPT). MPT attempts to maximize a portfolio's expected return for a given amount of portfolio risk, or equivalently minimize risk for a given level of expected return, by selecting the proportions of various asset

classes rather than selecting individual securities. Historically, rigorous MPT-based financial advice has been available primarily through certain high-end financial advisors. Wealthfront's goal is to enable anyone with at least \$500 to access the benefits of MPT.

Prior to the launch of the Wealthfront software-based financial advisor service, it was not practical to offer rigorous and complete MPT to everyone because delivering a complete solution was too complex. Specifically, the number of calculations required to identify an optimized asset allocation, the ideal securities to represent each asset class, and an individual's true risk tolerance are beyond the scope of free, web-based tools. The job becomes even more difficult when considering the importance of periodically rebalancing a portfolio to maintain a desired risk level.

To employ MPT properly, one must start with an accurate determination of an individual's objective and subjective tolerance for risk. Achieving accuracy requires sophisticated software applied to more detailed questions than are typically asked by advisers. Based on this risk analysis, Wealthfront seeks to create an individualized investment plan using the optimal asset classes in which to invest, the most efficient and inexpensive ETFs to represent each of those asset classes, and the ideal mix of asset classes based on the Client's specific risk tolerance. Wealthfront uses Mean Variance Optimization to rigorously evaluate every possible combination of the following eleven asset classes: US equities, foreign developed markets equities, emerging markets equities, dividend growth equities, real estate, natural resources, treasury inflation protected securities (TIPS), municipal bonds, corporate bonds, emerging markets bonds and US government bonds. Mean Variance Optimization uses the expected return and volatility for each asset class and the covariance among asset classes to find the combination that delivers the highest possible return for any given standard deviation of a portfolio's returns. Wealthfront however, must limit the number of assets classes for very small portfolios.

Wealthfront periodically reviews the entire population of more than 1,000 ETFs to identify the most appropriate ETFs to represent each asset class. We look for ETFs that minimize cost and tracking error and offer market liquidity. Many investors do not realize that ETFs do not exactly track the indexes they were created to mimic. Choosing an ETF with a low expense ratio that does not track the asset class recommended by our service runs the risk of sub-optimizing a Client's portfolio's performance. We choose ETFs that are expected to have sufficient liquidity to allow Client withdrawals at any time. Finally, we select ETFs that have conservative and shareholder-friendly securities lending policies.

In addition to choosing what we believe to be the best ETFs at the time, we explain why we chose each one. We provide a detailed analysis of how the selected ETF stacked up against the second and third best choice for each asset class on the dimensions described in the paragraph above.

Wealthfront continuously monitors our Clients' portfolios and periodically rebalances them back to the Clients' target mix in an effort to optimize returns for the intended level of risk. We consider tax implications and the volatility associated with each of our chosen asset classes when deciding when and how to rebalance.



## **B. Tax-Loss Harvesting**

TLH is a technique used to lower your taxes while maintaining the expected risk and return profile of your portfolio. It harvests previously unrecognized investment losses to offset taxes due on your other gains and income by selling a security at loss to accelerate the realization of capital loss and investing the proceeds in a security with closely correlated risk and return characteristics. The realized loss can be applied to lower your tax liability and the tax savings can be reinvested to grow the value of your portfolio. Wealthfront's basic TLH strategy, which is solely applied to ETFs, is available for all Clients. Advanced versions of TLH are available for Clients with larger account sizes and are applied to individual stocks that comprise the domestic equity allocation in their taxable account portfolios.

## **C. Long Term, Buy And Hold Investment Philosophy**

Wealthfront adheres to a long-term, buy-and-hold investment philosophy. While Wealthfront reserves the right to act otherwise if it feels that it is the best interests of its Clients, Wealthfront does not try to time the market and in general, Wealthfront intentionally does not react market movements in managing Client Accounts other than through rebalancing and tax-loss harvesting. Wealthfront believes that numerous academic and industry studies show that *“short term fluctuations in market, which loom so large to investors, have little to do with the long-term accumulation of wealth.”* J. Siegel, Stocks for the Long Run (1977).

## **D. Risk Considerations**

Wealthfront cannot guarantee any level of performance or that any Client will avoid a loss of Account assets. **Any investment in securities involves the possibility of financial loss that Clients should be prepared to bear.**

When evaluating risk, financial loss may be viewed differently by each Client and may depend on many different risk items, each of which may affect the probability of adverse consequences and the magnitude of any potential losses. The following risks may not be all-inclusive, but should be considered carefully by a prospective Client before retaining Wealthfront's services. These risks should be considered as possibilities, with additional regard to their actual probability of occurring and the effect on a Client if there is in fact an occurrence.

**Market Risk** – The price of any security or the value of an entire asset class can decline for a variety of reasons outside of Wealthfront's control, including, but not limited to, changes in the macroeconomic environment, unpredictable market sentiment, forecasted or unforeseen economic developments, interest rates, regulatory changes, and domestic or foreign political, demographic, or social events. If a Client has a high allocation in a particular asset class, it may negatively affect overall performance to the extent that the asset class underperforms relative to other market assets. Conversely, a low allocation to a particular asset class that outperforms other asset classes in a particular period will cause that Client Account to underperform relative to the overall market.

**Advisory Risk** – There is no guarantee that Wealthfront’s judgment or investment decisions about particular securities or asset classes will necessarily produce the intended results. It is possible that Clients or Wealthfront itself may experience computer equipment failure, loss of internet access, viruses, or other events that may impair access to Wealthfront’s software based financial advisory service. Wealthfront and its representatives are not responsible to any Client for losses unless caused by Wealthfront breaching its fiduciary duty.

**Software Risk** -- Wealthfront delivers its financial advisor services entirely through software. Consequently, Wealthfront rigorously designs, develops and tests its software extensively before putting such software into production with actual Client accounts and assets and periodically monitors the behaviors of such software after its deployment. Notwithstanding this rigorous design, development, testing and monitoring, it is possible that such software may not always perform exactly as intended or as disclosed on the Site, mobile app, blogs or other Wealthfront disclosure documents, especially in certain combinations of unusual circumstances. Wealthfront continuously strives to monitor, detect and correct any software that does not perform as expected or as disclosed. It is Wealthfront’s policy to ensure that any Clients who suffer financial harm due to any software that does not perform as expected or as disclosed as a result of a result of Wealthfront’s breach of fiduciary duty are made whole.

**Volatility and Correlation Risk** – Wealthfront’s Security selection process is based in part on a careful evaluation of past price performance and volatility to evaluate future probabilities. It is possible that different or unrelated asset classes may exhibit similar price changes in similar directions which may adversely affect a Client’s account, and may become more acute in times of market upheaval or high volatility. **Past performance is no guarantee of future results, and any historical returns, expected returns, or probability projections may not reflect actual future performance.**

**Liquidity and Valuation Risk** – High volatility and/or the lack of deep and active liquid markets for a security may prevent a Client from selling his or her securities at all, or at an advantageous time or price because Wealthfront’s executing broker-dealer may have difficulty finding a buyer and may be forced to sell at a significant discount to market value. Some securities (including ETFs) that hold or trade financial instruments may be adversely affected by liquidity issues as they manage their portfolios. While Wealthfront values the securities held in Client Accounts based on reasonably available exchange traded security data, Wealthfront may from time to time receive or use inaccurate data, which could adversely affect security valuations, transaction size for purchases or sales, and/or the resulting advisory fees paid by a Client to Wealthfront.

**Credit Risk** – Wealthfront cannot control and Clients are exposed to the risk that financial intermediaries or security issuers may experience adverse economic consequences that may include impaired credit ratings, default, bankruptcy or insolvency, any of which may affect portfolio values or management. This risk applies to assets on deposit with any broker-dealer utilized by Client, notwithstanding asset segregation and insurance requirements that are beneficial to broker-dealer clients generally. In addition, exchange trading venues or trade settlement and clearing intermediaries could experience adverse events that may temporarily or permanently limit trading or adversely affect the value of Client securities. Finally, any issuer of

securities may experience a credit event that could impair or erase the value of the issuer's securities held by a Client. Wealthfront seeks to limit credit risk by generally adhering to the purchase of ETFs, which are subject to regulatory limits on asset segregation and leverage such that fund shareholders are given liquidation priority versus the fund issuer; however, certain funds and products, which Wealthfront generally does not invest in, may involve higher issuer credit risk because they are not structured as a registered fund.

**Legislative and Tax Risk** - Performance may directly or indirectly be affected by government legislation or regulation, which may include, but is not limited to: changes in investment adviser / financial advisor or securities trading regulation; change in the U.S. government's guarantee of ultimate payment of principal and interest on certain government securities; and changes in the tax code that could affect interest income, income characterization and/or tax reporting obligations (particularly for ETF securities dealing in natural resources). Wealthfront does not engage in tax planning, and in certain circumstances a Client may incur taxable income on his or her investments without a cash distribution to pay the tax due.

**Tax Loss Harvesting Risk** - Clients who activate our tax-loss harvesting service are alerted to the following risks:

- **Clients should confer with their personal tax advisor regarding the tax consequences of investing with Wealthfront and engaging in the tax-loss harvesting strategy, based on their particular circumstances.** Clients and their personal tax advisors are responsible for how the transactions in the Client's account are reported to the Internal Revenue Service ("IRS") or any other taxing authority. Wealthfront assumes no responsibility to you for the tax consequences of any transaction.
- Wealthfront's tax-loss harvesting strategy is not intended as tax advice, and Wealthfront does not represent in any manner that the tax consequences described will be obtained or that Wealthfront's investment strategy will result in any particular tax consequence. The tax consequences of this strategy and other Wealthfront strategies are complex and may be subject to challenge by the IRS. This strategy was not developed to be used by, and it cannot be used by, any investor to avoid penalties or interest.
- When Wealthfront replaces investments with "similar" investments as part of the tax-loss harvesting strategy, it is a reference to investments that are expected, but are not guaranteed, to perform similarly and that might lower a Client's tax bill while maintaining a similar expected risk and return on the Client's portfolio. **Expected returns and risk characteristics are no guarantee of actual performance.**
- A Client must notify Wealthfront of specific stocks in which the Client is prohibited from investing. If a Client instructs Wealthfront not to purchase certain stocks, Wealthfront will select an alternate stock to purchase on the Client's behalf or if Wealthfront deems no other stock as appropriate, not invest in an alternate stock. The Client shall notify Wealthfront immediately if you consider any investments recommended or made for the Account to violate such restrictions.



- The performance of the new securities purchased through the tax-loss harvesting service may be better or worse than the performance of the securities that are sold for tax-loss harvesting purposes.
- The effectiveness of the tax-loss harvesting strategy to reduce the tax liability of the client will depend on the client's entire tax and investment profile, including purchases and dispositions in a Client's (or Client's spouse's) accounts outside of Wealthfront and type of investments (e.g., taxable or nontaxable) or holding period (e.g., short-term or long-term). The utilization of losses harvested through the strategy will depend upon the recognition of capital gains in the same or a future tax period, and in addition may be subject to limitations under applicable tax laws, e.g., if there are insufficient realized gains in the tax period, the use of harvested losses may be limited to a \$3,000 deduction against income and distributions. Losses harvested through the strategy that are not utilized in the tax period when recognized (e.g., because of insufficient capital gains and/or significant capital loss carryforwards), generally may be carried forward to offset future capital gains, if any.
- Be aware that if the Client and/or the Client's spouse have other taxable or non-taxable investment accounts, and the Client holds in those accounts any of the securities (including options contracts) held in the Client's Wealthfront account, the Client cannot trade any of those securities 30 days before or after Wealthfront trades those same securities as part of the tax-loss harvesting strategy to avoid possible wash sales and, as a result, a nullification of any tax benefits of the strategy. For more information on the wash sale rule, please read [IRS Publication 550](#).
- Wealthfront only monitors for tax-loss harvesting for accounts within Wealthfront. The Client is responsible for monitoring their and their spouse's accounts outside of Wealthfront to ensure that transactions in the same security or a substantially similar security do not create a "wash sale." A wash sale is the sale at a loss and purchase of the same security or substantially similar security within 30 days of each other. If a wash sale transaction occurs, the IRS may disallow or defer the loss for current tax reporting purposes. More specifically, the wash sale period for any sale at a loss consists of 61 calendar days: the day of the sale, the 30 days before the sale, and the 30 days after the sale. The wash sale rule postpones losses on a sale, if replacement shares are bought around the same time. Wealthfront may lack visibility to certain wash sales, should they occur as a result of external or unlinked accounts, and therefore Wealthfront may not be able to provide notice of such wash sale in advance of the Client's receipt of the IRS Form 1099.
- Except as set forth below, Wealthfront will monitor only a Client's (or client's spouse's) Wealthfront accounts to determine if there are unrealized losses for purposes of determining whether to harvest such losses. Transactions outside of Wealthfront accounts may affect whether a loss is successfully harvested and, if so, whether that loss is usable by the Client in the most efficient manner. A Client may also request that Wealthfront monitor the client's spouse's accounts or their IRA accounts at Wealthfront to avoid the wash sale disallowance rule. A client may request spousal monitoring online or by calling

Wealthfront at (844) 995-8437. If Wealthfront is monitoring multiple accounts to avoid the wash sale disallowance rule, the first taxable account to trade a security will block the other account(s) from trading in that same security for 30 days.

- Under certain limited circumstances, there is a chance that Wealthfront trading attributed to tax-loss harvesting may create capital gains. In addition, tax-loss harvesting strategies may produce losses, which may not be offset by sufficient gains in the account.

**Potentially High Levels of Trading Risk** - Wealthfront's investment strategies, including portfolio rebalancing and tax-loss harvesting, can lead to high levels of trading. High levels of trading could result in (a) bid-ask spread expense; (b) trade executions that may occur at prices beyond the bid-ask spread (if quantity demanded exceeds quantity available at the bid or ask); (c) trading that may adversely move prices, such that subsequent transactions occur at worse prices; (d) trading that may disqualify some dividends from qualified dividend treatment; (e) unfulfilled orders or portfolio drift, in the event that markets are disorderly or trading halts altogether; and (f) unforeseen trading errors.

**Foreign Investing and Emerging Markets Risk** - Foreign investing involves risks not typically associated with U.S. investments, and the risks may be exacerbated further in emerging market countries. These risks may include, among others, adverse fluctuations in foreign currency values, as well as adverse political, social and economic developments affecting one or more foreign countries. In addition, foreign investing may involve less publicly available information and more volatile or less liquid securities markets, particularly in markets that trade a small number of securities, have unstable governments, or involve limited industry. Investments in foreign countries could be affected by factors not present in the U.S., such as restrictions on receiving the investment proceeds from a foreign country, foreign tax laws or tax withholding requirements, unique trade clearance or settlement procedures, and potential difficulties in enforcing contractual obligations or other legal rules that jeopardize shareholder protection. Foreign accounting may be less transparent than U.S. accounting practices and foreign regulation may be inadequate or irregular.

**ETF Risks, including Net Asset Valuations and Tracking Error** - ETF performance may not exactly match the performance of the index or market benchmark that the ETF is designed to track because 1) the ETF will incur expenses and transaction costs not incurred by any applicable index or market benchmark; 2) certain securities comprising the index or market benchmark tracked by the ETF may, from time to time, temporarily be unavailable; and 3) supply and demand in the market for either the ETF and/or for the securities held by the ETF may cause the ETF shares to trade at a premium or discount to the actual net asset value of the securities owned by the ETF. Certain ETF strategies may from time to time include the purchase of fixed income, commodities, foreign securities, American Depositary Receipts, or other securities for which expenses and commission rates could be higher than normally charged for exchange traded equity securities, and for which market quotations or valuation may be limited or inaccurate.

Clients should be aware that to the extent they invest in ETF securities they will pay two levels of advisory compensation – advisory fees charged by Wealthfront plus any management fees

charged by the issuer of the ETF. This scenario may cause a higher advisory cost (and potentially lower investment returns) than if a Client purchased the ETF directly.

An ETF typically includes embedded expenses that may reduce the fund's net asset value, and therefore directly affect the fund's performance and indirectly affect a Client's portfolio performance or an index benchmark comparison. Expenses of the fund may include ETF management fees, custodian fees, brokerage commissions, and legal and accounting fees. ETF expenses may change from time to time at the sole discretion of the ETF issuer. Wealthfront discloses each ETF's current information, including expenses, on the Site. ETF tracking error and expenses may vary.

**Inflation, Currency, and Interest Rate Risks** – Security prices and portfolio returns will likely vary in response to changes in inflation and interest rates. Inflation causes the value of future dollars to be worth less and may reduce the purchasing power of an investor's future interest payments and principal. Inflation also generally leads to higher interest rates, which in turn may cause the value of many types of fixed income investments to decline. In addition, the relative value of the U.S. dollar-denominated assets primarily managed by Wealthfront may be affected by the risk that currency devaluations affect Client purchasing power.

**College Savings Account Risks** – College Savings Accounts are subject to various risks, including but not limited to:

*Special Nature of Plan Interests* - The Client and the Client's beneficiary do not have access or rights to any assets of the state sponsoring our 529 Plan or any assets of the state trust of the Section 529 college savings plan (a "Plan") other than the assets credited to the Client's account for that beneficiary. The college savings account is an investment vehicle. College savings accounts are subject to certain risks including: (i) the possibility that the Client may lose money over short or even long periods of time; (ii) the risk of changes in applicable federal and state tax laws and regulations; (iii) the risk of Plan changes including changes in fees and expenses; and (iv) the risk that contributions to the college savings account may adversely affect the eligibility of the beneficiary or the Client for financial aid or other benefits. Some MFSs in a Client's college savings account carry more and/or different risks than others. Clients should weigh such risks with the understanding that they could arise at any time during the life of the Client's account.

*Municipal Fund Securities* - When the Client contributes to the college savings account, the Client's money will be invested in MFSs. An investment in the Client's college savings account is not a bank deposit. None of the Client's account, the principal the Client invests, nor any investment return is insured or guaranteed by (i) any state or any state agencies, instrumentalities or funds, (ii) any officer, official, staff member of any state, (iii) any Plan or any program manager of any such Plan, (iv) any board of any state trust issuing MFSs for a Plan (a "Board"), (v) any such state trust (as "State Trust"), (vi) Wealthfront, (vii) each of their respective affiliates, officials, officers, directors, employees and representatives, (viii) the federal government, (ix) the Federal Deposit Insurance Corporation ("FDIC"), or (x) any other governmental agency. Investment

returns will vary depending upon the performance of the designated portfolios in the Client's account. A Client could lose all or a portion of the Client's investment.

*Relatively Short Investment Time Horizon* - Relative to investing for retirement, the holding period for college savings investors is very short (e.g., 5-20 years versus 30-60 years). Also, the need for liquidity during the withdrawal phase (to pay for qualified higher education expenses) generally is very important. Clients should strongly consider the level of risk they wish to assume when completing the risk questionnaire upon account opening.

*Limited Investment Direction* - Clients may not direct the underlying investments in their college savings account. The ongoing money management is the responsibility of Wealthfront. The only manner in which Clients can affect the money management is to change their risk score, which is limited to two times per year, or upon the change of the beneficiary. Once the permitted two per calendar year risk score changes are made in the Client's account, a subsequent risk score change in the Client's account within the same calendar year will not be processed. The choice of the underlying investments of the MFSs is subject to the approval of the Board. Automatic investment exchanges that occur as the Client's assets move through the glide path do not count towards the Client's twice per calendar year investment exchange limit.

*Liquidity Risk* - Investments in a Plan are considered less liquid than other types of investments (e.g., investments in mutual fund shares) because the circumstances in which a Client may withdraw money from a Plan account without a penalty or adverse tax consequences are significantly more limited.

*Potential Changes to the Plan* - Boards generally reserve the right, in their sole discretion, to discontinue the Plan or to change any aspect of the Plan. For example, the Board may change the Plan's fees and expenses; add, subtract, or merge the MFSs; close a MFS to new investors; or change the program manager or the underlying investment(s) of a MFS. Depending on the nature of the change, a Client may be required to, or prohibited from, participating in the change with respect to accounts established before the change. A particular program manager may not necessarily continue as the Plan's program manager, and Wealthfront may not necessarily continue as investment adviser and distributor to a Plan (although Wealthfront will continue as the Client's investment adviser until either Wealthfront or the Client terminates that investment advisory relationship).

Changes to a Plan may or may not be beneficial to Clients. The Board may terminate the Plan by giving written notice to the Client, but even if the Board terminates the Plan, the Client and the Client's beneficiary's rights to the Client's account assets will be unaffected. An MFS may be temporarily uninvested during a transition from one investment underlying an MFS to another underlying investment. The transaction costs associated with any liquidation, as well as any market impact on the value of the securities being liquidated, will be borne by the MFS which ultimately may impact the individual portfolios holding that MFS.

*Status of Federal and State Law and Regulations Governing a Plan* - Federal and state law and regulations governing the administration of Plans could change in the future. In addition, federal and state laws on related matters, such as the funding of higher education expenses, treatment of financial aid, and tax matters are subject to frequent change. It is unknown what effect these kinds of changes could have on a college savings account. Clients should also consider the potential impact of any other state laws on their account. Clients should consult their tax advisor for more information.

*Eligibility for Financial Aid* - The treatment of college savings account assets may have an adverse effect on the beneficiary's eligibility to receive assistance under various federal, state, and institutional financial aid programs.

*No Guarantee That Investments Will Cover Qualified Higher Education Expenses; Inflation and Qualified Higher Education Expenses* - There is no guarantee that the money in a Client's college savings account will be sufficient to cover all of a beneficiary's qualified higher education expenses, even if contributions are made in the maximum allowable amount for the beneficiary. The future rate of increase in qualified higher education expenses is uncertain and could exceed the rate of investment return earned by a Plan account over any relevant period of time.

Investors in any Plan should read the Plan's offering documents and any related participation agreement carefully before investing or sending money.

**Portfolio Line of Credit** - Clients who choose to use WBC's Portfolio Line of Credit are alerted to the following risks:

- Portfolio Line of Credit is a margin loan product offered exclusively to clients of Wealthfront by WBC. Clients should review the risks listed below and in WBC's [Margin Handbook](#), and consider them before borrowing.
- Clients can lose more funds than deposited in their margin account. A decline in the value of securities that are purchased on margin may require Clients to provide WBC with additional funds to avoid the forced sale of those securities or other securities or assets in their margin account(s).
- WBC can force the sale of securities or other assets in Client margin account(s). If the equity in a Client margin account falls below the maintenance margin requirements, or our higher "house" requirements, WBC can sell the securities or other assets in any of the Client's margin account(s) held with WBC to cover the margin deficiency. Clients also will be responsible for any shortfall in the margin account after such a sale.
- WBC can sell Client securities or other assets in margin accounts without contacting the Client. Some investors mistakenly believe that a brokerage firm must contact them for a margin call to be valid, and that the brokerage firm cannot liquidate securities or other assets in their accounts to meet the call unless the brokerage firm has contacted them first. This is not the case. While WBC will attempt to notify Clients of margin calls, WBC is not required to do so. However, even if WBC has contacted a Client and provided a specific date by which the Client can meet a margin call, WBC 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 or other assets in their account(s) are liquidated or sold by WBC to meet a margin call. Because the securities are collateral for the margin loan, WBC has the right to decide which security to sell in order to protect its interests.
- WBC can increase its “house” maintenance margin requirements at any time and are not required to provide advance written notice to Clients. These changes in WBC’s policy often take effect immediately and may result in the issuance of a maintenance margin call. A Client failure to satisfy the call may cause WBC to liquidate or sell securities in Client margin account(s).
- 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 a Client under certain conditions, a Client does not have a right to the extension.

### **Item 7 Client Information Provided to Portfolio Managers**

On a quarterly basis, Wealthfront contacts each Client to remind them to review and update the investment profile information they previously provided. Wealthfront also requests that Clients reconfirm the same information on an annual basis. These notifications and confirmations include a link to the Client’s current information and contact information for the Wealthfront support team. Currently the Wealthfront team members whose tasks include supervising, arranging and responding to these notifications, confirmations and reviews are: the Client Services Manager and the Client Services team.

Wealthfront conducts separate reviews related to the ETFs used for Client portfolios. A committee comprised of Wealthfront’s CEO Andrew Rachleff and certain other Wealthfront officers who are not members of the Wealthfront investment research team approves these reviews. The committee has the authority, if necessary, to remove, add or replace an ETF from the portfolios advised by Wealthfront.

### **Item 8 Client Contact with Portfolio Managers**

All client contacts and communications regarding participation in the Wealthfront Program will occur through contact with Wealthfront via email, the Site or the App. If Client changes Client’s investment profile information, Wealthfront will promptly make any appropriate changes to Client’s Account portfolio. See Item 16 in Wealthfront’s Form ADV Part 2A brochure for a description of Wealthfront’s discretionary investment authority, including the timing of Wealthfront’s placement of trade orders, for while Wealthfront seeks to respond to Client deposits, Client changes in risk profiles, Client withdrawal requests, including without limitation requests in connection with terminations, and other reasonable Client requests in a timely and reasonable manner, Wealthfront does not represent or guarantee that Wealthfront will respond to any such Client actions or requests immediately or in accordance with set time schedule.

## **Item 9 Additional Information**

### **A. Disciplinary Information**

Like all registered investment advisers, Wealthfront is obligated to disclose any disciplinary event that might be material to any Client when evaluating our services. Wealthfront does not have any legal, financial, regulatory, or other “disciplinary” item to report to any Client. This statement applies to both Wealthfront and to every Wealthfront employee.

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

Wealthfront utilizes its wholly-owned subsidiary, WBC, to effect transactions on behalf of Wealthfront’s Clients. WBC is an introducing broker registered with the Financial Industry Regulatory Authority and the U.S. Securities & Exchange Commission, whose sole purpose is to service Wealthfront’s Clients. WBC, as a broker-dealer, has entered into an omnibus clearing agreement with a RBC Capital Markets, LLC (“RBC CS,” or “Clearing Broker”). WBC instructs the Clearing Broker on behalf of Wealthfront to clear and settle Wealthfront Client transactions on an omnibus basis for Client securities orders that WBC currently places with either Citadel LLC or KCG Americas LLC.

WBC also exclusively offers its Portfolio Line of Credit, a margin loan product, to Wealthfront Clients with taxable margin account balances that exceed \$100,000.

### **C. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

Wealthfront’s paramount ethical, professional, and legal duty is to act at all times as a fiduciary to its Clients. This means that Wealthfront puts the interests of its Clients ahead of its own, and carefully manages for any perceived or actual conflict of interest that may arise in relation to its advisory services. Wealthfront has adopted a Code of Ethics, which is designed to ensure that we meet our fiduciary obligation to Clients, enhance our culture of compliance within the firm, and detect and prevent any violations of securities laws.

Wealthfront’s Code of Ethics (the “Code”) establishes standards of conduct for all Wealthfront’s “Supervised Persons” (as defined in the Code), Wealthfront’s officers, employees, certain contractors and others, and is consistent with the Code of Ethics requirements of Rule 204A-1 under the Investment Advisers Act of 1940, as amended. The Code includes general requirements that all Supervised Persons comply with their fiduciary obligations to Clients and applicable securities laws, and specific requirements relating to, among other things, personal trading, insider trading, conflicts of interest, and confidentiality of client information.

Each new Wealthfront employee receives a copy of the Code when hired by Wealthfront. Wealthfront sends copies of any amendments to the Code to all of Wealthfront’s Supervised Persons, who must acknowledge in writing having received the Statement and the amendments. Annually or as otherwise required, each Supervised Person must confirm to Wealthfront that he

or she has complied with the Statement during such preceding period.

With certain exceptions specified in the Code, under the Code, Wealthfront's directors and Supervised Persons may personally invest in securities recommended by Wealthfront, specifically the ETFs recommended for each asset class. Transactions in ETFs have been pre-approved for trading by Wealthfront's Chief Compliance Officer based on the security's liquidity profile and structural characteristics. Wealthfront's Supervised Persons may also buy or sell specific securities for their own accounts that are not purchased or sold for Clients. Under certain circumstances, Supervised Persons may also buy and sell securities that are bought or sold for Clients. These personal transactions require pre-approval from Wealthfront's compliance department which determines if any actual or perceived conflicts exists with Clients. These personal securities transactions are subject to certain limitations such as the size of the trade and the size of the issuer company. Wealthfront monitors the securities transactions of all Supervised Persons and investigates any unusual patterns that it detects. It also requires all Supervised Persons to report any violations of the Statement promptly to Wealthfront's Chief Compliance Officer. The complete Code of Ethics is available to any client or prospective Client upon request.

#### **D. Review of Accounts**

Wealthfront provides all Clients with continuous access via the Site or the App to real time reporting information about Account status, securities positions and balances. Clients may also receive periodic e-mail communications describing portfolio performance, Account information, and product features.

Wealthfront's software-based financial advisory service assumes that a portfolio created using MPT-based techniques will not stay optimized over time, and must be periodically rebalanced back to its original targets to maintain the intended risk level and asset allocations. Wealthfront reviews each Client's Account when it is opened and continuously monitors and periodically rebalances each Client's portfolio to seek to maintain a Client's targeted risk tolerance and optimal return for the Client's risk level. Wealthfront also conducts reviews when Clients make changes to their risk profiles. Wealthfront considers tax implications in taxable accounts and the volatility associated with each of its chosen asset classes when deciding when and how to rebalance.

On a quarterly basis, Wealthfront contacts each Client to remind them to review and update their investment profile information they previously provided. Wealthfront also requests that Clients reconfirm the same information on an annual basis. These notifications and confirmations include a link to the Client's current information and contact information for the Wealthfront support team. Currently the Wealthfront team members whose tasks include supervising, arranging and responding to these notifications, confirmations and reviews are: the Client Services Manager and the Client Services team.

Wealthfront conducts separate reviews related to the ETFs used for Client portfolios. These reviews are approved by a committee comprised of Wealthfront's CEO Andrew Rachleff and other Wealthfront officers who are not members of the Wealthfront investment research team.



This committee has the authority, if necessary, to remove, add or replace an ETF, from the portfolios advised by Wealthfront.

#### **E. Client Referrals and Other Compensation**

Wealthfront expects from time to time to run promotional campaigns to attract Clients to open Accounts on the Site. These promotions may include additional Account services or products offered on a limited basis to select Clients, more favorable fee arrangements, and/or reduced or waived advisory fees for Clients, including Wealthfront's Invite Program pursuant to which Clients may invite friends, family and others to open a Wealthfront Account. Wealthfront waives its advisory fee on \$5,000 of Account assets for both the referring Client and the referred Client for each referral. Wealthfront may also invite non-Clients to open a Wealthfront Account via the Invite Program. For non-Clients who become Clients via direct invitation from Wealthfront, Wealthfront will waive its advisory fee on a predetermined amount of the Client's Account assets.

These arrangements may create an incentive for a third party or other existing Client to refer prospective Clients to Wealthfront, even if the third party would otherwise not make the referral. These arrangements may also create a conflict of interest for a Client to maintain a certain level of assets managed through Wealthfront if doing so would result in eligibility to receive an incentive, bonus or additional compensation.

Wealthfront may also pay pre-determined fees to third parties for driving new users to Wealthfront, which may be in the form of so-called CPM, CPC or CPA arrangements (respectively, impressions, clicks or actions through other websites). For example, Wealthfront advertises on various social media and other websites, including sites on which bloggers may write articles about Wealthfront and its services, and pays an advertising fee based upon the potential client leads (but not new client account openings) generated by those advertisements. Wealthfront exercises no editorial control over such sites.

While it is not a common practice, Wealthfront from time to time has engaged solicitors whom it pays for Client referrals. Wealthfront discloses this practice in writing to the affected Clients and complies with the requirements of Rule 206(4)-3 under the Investment Advisers Act of 1940, as amended, to the extent required by applicable law.

#### **F. Financial Information**

Wealthfront does not require or solicit the prepayment of any advisory fees, and does not have any adverse financial condition that is reasonably likely to impair our ability to continuously meet our contractual commitments to our Clients.