



## Part 2A of Form ADV

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March, 2016

This Brochure provides information about the qualifications and business practices of Tanglewood Wealth Management, Inc. "Tanglewood". If you have any questions about the contents of this Brochure, please contact the firm's Chief Compliance Officer Keith A. Fenstad at (713) 840-8880. 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.

Tanglewood is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information about which you determine to hire or retain an Adviser.

Additional information about Tanglewood also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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## **Item 2 – Material Changes**

There have not been any material changes since our last brochure dated March, 2015.

We will further provide you with a new brochure as necessary based on changes or new information, at any time, without charge.

Our brochure may be requested by contacting us at (713) 840-8880. A copy is also available on our web site [www.tanglewoodwealth.com](http://www.tanglewoodwealth.com). Additional information about Tanglewood is also available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).



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## Item 4 – Advisory Business

Tanglewood Wealth Management, Inc. “Tanglewood” was originally founded in 1979 by its current President and Chief Investment Officer, John F. Merrill. John is currently the majority owner of the firm. Both Keith Fenstad and Brian Merrill each own 10%.

Tanglewood offers its clients professional money management and access to a complete range of personal financial planning services. Depending on the range of services desired by the client, Tanglewood offers two relationships from which clients can choose; the “*Wealth Management*” relationship or the “*Tanglewood Portfolios*” relationship.

With its *Wealth Management* clients, Tanglewood offers to address a client’s total financial well-being. In addition to individually-tailored investment management services, personalized financial planning is available at no additional charge.

For *Tanglewood Portfolios* clients, Tanglewood provides turnkey investment management. The *Tanglewood Portfolios* relationship is offered to those suitable clients who do not wish to receive the additional financial planning services available through the *Wealth Management* relationship.

In addition to individual relationships, Tanglewood also offers institutional investment management. The minimum assets under management for an institutional client is \$3,000,000 but may be waived in the sole discretion of Tanglewood. Institutional services and fees are also negotiated on a case-by-case basis.

In all the above advisory relationships, Tanglewood has discretion over the purchase of liquid (tradable) investments including U.S. or foreign government bonds, mutual funds, Exchange Traded Funds (ETFs) and cash or equivalents for each client’s account. An unrelated qualified custodian or broker/dealer maintains custody of all client assets under management. Tanglewood is named as investment advisor on these accounts.

As of December 31, 2015, Tanglewood managed \$816,546,000 of client assets on a discretionary basis.

## FINANCIAL PLANNING SERVICES

### Wealth Management Relationship

In addition to investment management, our primary financial planning role is to serve as a knowledgeable and unbiased source of information and education. The depth and complexity of planning varies with each client. Financial planning is a “value added” service offered to our Wealth Management clients. Tanglewood offers personalized financial planning advice to those *Wealth Management* clients who seek our guidance in one or more of the following areas:

- Estate Planning
- Retirement Planning
- Insurance Analysis
- College Funding
- Asset Protection
- Employee Benefit Analysis
- Business Planning
- Charitable Planning

All Wealth Management clients are encouraged to involve us in each aspect of their financial lives.



## **Tanglewood Portfolios Relationship**

There are no ongoing financial planning services for Tanglewood Portfolios relationships. However, advice necessary to the professional management and servicing of the accounts is provided as needed.

## **Financial Planning Limitations**

As indicated above, to the extent requested by a client, Tanglewood *may* provide financial planning consulting services such as estate planning, college, insurance, etc. Neither Tanglewood, nor any of its representatives, serves as an attorney, accountant, or insurance agent, and no portion of Tanglewood's services should be construed as same. To the extent requested by a client, Tanglewood may recommend the services of other professionals for certain non-investment implementation purposes (i.e. attorneys, accountants, insurance, etc.). The client is under no obligation to engage the services of any such recommended professional. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any recommendation from Tanglewood. **Please Note:** If the client engages any such recommended professional, and a dispute arises thereafter relative to such engagement, the client agrees to seek recourse exclusively from and against the engaged professional. **Please Also Note:** It remains the client's responsibility to promptly notify Tanglewood if there is ever any change in his/her financial situation or investment objectives for the purpose of reviewing/evaluating/revising Tanglewood's previous recommendations and/or services.

In conjunction with Tanglewood's financial planning services to Clients, the firm often provides referrals to other unaffiliated professionals such as estate planning attorneys, accountants and insurance agents. Some of these other professionals may also be clients of Tanglewood. However, there are no fee sharing arrangements between Tanglewood and any recommended professional. No client is under any obligation to engage any recommended professional.

Tanglewood depends on each client to provide all the information necessary to properly evaluate his or her financial position. Advice is given on a "best efforts basis" and is communicated both verbally and in written format. In many cases, the specialized services of other professionals (i.e., attorneys, accountants, insurance agents, etc.) are required to implement various strategies for Wealth Management clients. We often work directly with a client's other advisors to facilitate the implementation process. Ultimately, it is the client's responsibility to ensure that all of their Financial Planning needs have been addressed.

## **Item 5 – Fees and Compensation**

The fees for Wealth Management and Tanglewood Portfolios relationships are different due to the uniqueness of the services they provide.

### **WEALTH MANAGEMENT RELATIONSHIP**

#### Investment Management Fees

The annual Investment Management fee for Wealth Management clients is based on the average market value of managed assets in the "family group" of accounts. The fee schedule is established in a client's written agreement with Tanglewood and ranges from 0.60% to 0.35% per year based on the value of the managed portfolio. The minimum annual fee for the Wealth Management relationship is \$12,000.



*Note: Existing Wealth Management clients as of 3/31/2015 are not subject to a minimum fee and may have a different fee schedule ranging from 0.80% to 0.35% per year.*

Investment Management fees are deducted directly from the account(s) unless other arrangements are made between Tanglewood and client.

For Wealth Management client relationships, managed assets within the “family group” of accounts listed in the client’s Investment Management Agreement are combined for purposes of calculating the fee.

The following types of accounts will be grouped for fee purposes:

- Community property accounts;
- Separate property accounts of client and spouse;
- Revocable living trust accounts (where client and/or spouse are the only trustees);
- Family limited partnerships (where client and/or spouse are the only general partners and other partners’ interests are less than 20%);
- Custodial accounts for minor children or grandchildren;
- Personal tax-deferred accounts such as IRAs, SEP-IRAs, and Keoghs (for client and/or spouse);
- Other accounts as agreed to by client and Advisor.

#### Financial Planning Fees

Financial planning services as described in Item 4 above are provided at no additional charge to Wealth Management clients.

#### Minimum Assets Under Management

The minimum total assets under management for each Wealth Management relationship is \$2,000,000.

#### Quarterly Billing

The Investment Management fee is based upon the average account value of the previous calendar quarter. The average value is determined by taking the sum of the previous four month-end balances and dividing by four. The Investment Management fee is applied to each account on a pro rata basis and is billed quarterly, in arrears.



## TANGLEWOOD PORTFOLIOS RELATIONSHIP

### Investment Management Fees

Tanglewood calculates and bills the Tanglewood Portfolios Investment Management fee for each account individually. The annual fee is a flat 0.50% per annum. Account aggregation for fee purposes is not applicable due to the flat billing schedule.

### Financial Planning Fees

Not applicable, as financial planning is not a part of the Tanglewood Portfolios relationship.

### Minimum Assets Under Management

The minimum assets under management for a Tanglewood Portfolios relationship is \$500,000.

### Quarterly Billing

The Investment Management fee is based upon the average account value of the previous calendar quarter. The average value is determined by taking the sum of the previous four month-end balances and dividing by four. The Investment Management fee is applied to each account on a pro rata basis and is billed quarterly, in arrears.

**Please Note:** In its sole discretion, for Wealth Management and Tanglewood Portfolios relationships, Tanglewood may charge a lesser Investment Management fee and/or reduce or waive its aggregate account minimum based upon certain criteria (i.e. anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related family accounts, charitable accounts, negotiations with client, etc.)

## FEES & CHARGES COMMON TO ALL TANGLEWOOD CLIENTS

Charles Schwab & Co., Inc., the current custodian of the majority of assets under our management, charges transaction fees on the purchase or sale of some of the mutual funds we select for client accounts (maximum fee is \$12). Mutual funds that participate in Schwab's One Source program are bought and sold without any transaction costs. As broker/dealer on each managed account, Schwab will also charge a small fee or commission on the purchase or sale of government/corporate bonds, closed-end mutual funds, Exchange Traded Funds (ETFs) and most other stock and bond purchases. (Our negotiated transaction costs with Schwab are well below Schwab's published retail rate.)

Every mutual fund and ETF has internal management fees, legal, accounting, brokerage, custodial and operating expenses that are borne by the fund investor. The total of such charges vary from 0.05% to 1.23% per year. These expenses are never directly observed by fund investors as they are netted against gross returns and only the net returns are reported to shareholders. Our intent is to limit the total of such internal fund expenses within each client account to between 0.4% and 0.6% of client assets per year through the selection of funds (where available) that demonstrate competitive fee structures and/ or offer institutional class shares with reduced expenses to clients of advisors.

In unique circumstances, specific clients may incur certain charges imposed by custodians, brokers, third party investment and other third parties such as custodial fees, redemption fees, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Such charges, fees and commissions are exclusive of and in addition to Tanglewood's fee, and Tanglewood shall not receive any portion of these commissions, fees, and costs.



Clients may terminate the relationship with Tanglewood at any time and without notice. Tanglewood may terminate its relationship with a client upon 30 days written notice. In the event of termination, the Investment Management fee due to the Advisor for the termination period shall be prorated and shall be based on the latest valuation of the assets as of the date notice was received.

Item 12 further describes the factors that Tanglewood considers in selecting or recommending custodians for client transactions and determining the reasonableness of their compensation (e.g., commissions).

## **Item 6 – Performance-Based Fees and Side-By-Side Management**

Tanglewood does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

## **Item 7 – Types of Clients**

Tanglewood provides portfolio management services to individuals, high net worth individuals, corporations, pension and profit-sharing plans, charitable institutions, foundations and other trust programs. See Item 5 for minimum account requirements for each type of service provided.

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

Tanglewood assists all clients with determining the appropriate Investment Policy based on that individual's risk tolerance, time horizon, and investment objectives. Each client of the firm has an individually prepared Investment Policy Statement that sets out how conservatively or aggressively how his or her account(s) will be managed. Both the Wealth Management and Tanglewood Portfolios offerings are based on the same principals of asset allocation and investment strategies as described on the following pages.

### **Asset Allocation**

The primary determinant of both risk and reward is referred to as asset allocation. The underlying principles of asset allocation are:

- **Asset Classes-** Types of investments with similar characteristics are grouped together as asset classes. As a group, these securities will tend to react in the same way to economic and investment forces.
- **Diversification-** A cross-section of securities within an asset class is required in order to deliver the return associated with that asset class and to minimize the risk of opportunity loss (substantial underperformance) and the risk of owning too large a position in a single security.
- **Financial History is Rational and Repetitive (over the long term) -** The variation in returns from each asset class diminishes significantly with time. The longer an asset class is held, the more reliable its performance in relation to historical averages



A client's Investment Policy Statement establishes a long-term targeted rate-of-return objective for their portfolio. It will also set the risk parameters to which their portfolio is exposed including the range of declines it has experienced in prior bear markets.

Developing an asset allocation is a two-stage process. It begins by establishing a pre-determined mix of the two major families of asset classes: stocks and fixed income. Once the allocation to stocks and fixed income is set, Tanglewood will rarely deviate materially from it in managing the account. The second stage of our investment management process is somewhat more dynamic and one where Tanglewood applies its management skills over time. This is the evaluation, selection, and allocation to each individual asset class.

The primary individual asset classes utilized by Tanglewood are:

**Domestic Stocks:** Large Companies (large and mid-cap)  
Small Companies (small and micro-cap)

**International Stocks:** Developed Countries  
Emerging Markets

**Real Assets:** Securitized Real Estate (Primarily REITS)  
Gold

**Bonds:** High Quality Bonds (varying maturities)  
High-Yield Bonds  
Foreign Bonds

**Cash:** Money Market Accounts

Asset classes such as Commodities and International Bonds are not part of Tanglewood's Normal Asset Class weightings. Each of these asset classes is considered too volatile (cyclical) for permanent representation within your portfolio. However, from time to time, we may determine that the unique characteristics and/or evaluations of any of these asset classes may be of special benefit to your portfolio, i.e., enhancing its overall risk/reward profile.

The purchase of an alternative asset class for your managed account should not disrupt its overall asset class allocation guidelines. For example, the purchase of a Foreign Bond Fund for your portfolio would not increase your overall allocation to Fixed Income funds beyond its specified maximum percentage.

While the majority of such positions would be purchased in a mutual fund format, Tanglewood may also purchase individual bonds that are issued by domestic and foreign governments.



### **Style & Sector Strategies:**

After individual asset class weightings, there are three additional ways in which we seek to add value to the performance of our clients' portfolios: *style* weightings, *sector* weightings, and occasionally the use of hybrid funds.

There are four primary styles of stock selection: growth, value, growth-at-a-price, and index. Each of these management styles has a unique risk/reward makeup. Over time, each of these styles tends to come into, and go out of favor. Tanglewood constructs client portfolio so as to achieve a favorable balance of all four styles.

Individual companies are categorized by industry sector. Examples of industry sectors are healthcare, financial, retail, technology, and so forth. Tanglewood evaluates long-term demographic and business trends to determine which sectors, if any, to enhance within our client portfolios.

Tanglewood may allocate a portion of the assets under its management to *hybrid* mutual funds. These individual funds cannot be neatly earmarked into one defined area of the asset allocation guideline. Some hybrid funds invest in both stocks and bonds. Others employ equity strategies that maximize income instead of growth by techniques such as writing covered "calls" against the equities they own. (The call writer [seller] receives premium income but, in return, does not participate in the rise of the underlying stock's price above a pre-determined level.) Such hybrid funds offer unique opportunities to reduce the volatility risk within managed accounts.

Tanglewood's Investment Strategy is primarily implemented through long-term and short-term security purchases as investments are made with the intention of holding for at least 30 days. Tanglewood may however sell securities within 30 days of purchase if the market environment changed significantly causing Tanglewood to reevaluate holdings in light of new information.

Tanglewood does not initiate the use of margin as part of any Investment Strategy. Those clients with a short-term liquidity need may utilize margin if desired.

In the management of our accounts, Tanglewood relies on its own internally generated research on both the historical and current risks and rewards of various asset classes and combinations of asset classes (portfolios).

### **Combined Account Management aka "Combo":**

This management technique treats two or more accounts (with similar Investment Policies and objectives) as if they were one account for investment management purposes. The primary goal is to make the accounts more tax-efficient. The Combo portfolio exists only on paper, as the individual accounts never actually commingle their respective investments.

For example, aggregating taxable and tax-deferred accounts as a Combo allows Tanglewood to allocate more tax-efficient asset classes and mutual fund managers to the client's taxable account(s) and the least tax-efficient to their tax-deferred account(s). Managing the overall risk and return at the Combo level allows Tanglewood more flexibility to focus trading within tax-deferred account(s).



Each individual account within the Combo will look and perform differently than the others, but when viewed in aggregate, the allocations and performance of the Combo would be consistent with the chosen Investment policy.

### **Principal Risks**

As with any investing strategy, there is no guarantee that its objectives will be met. Investing in securities involves risk of loss and fluctuations in market value that clients should be prepared to bear.

The principal risks of investing in Tanglewood's strategies are summarized as follows:

#### *Asset allocation risk*

The allocation decisions made by Tanglewood to the various asset classes and market sectors could cause the portfolio to underperform other strategies with a similar investment objective.

#### *Risks of stock investing*

Stocks generally fluctuate in value more than bonds and may decline significantly over short time periods. There is the chance that stock prices overall will decline because stock markets tend to move in cycles, with periods of rising prices and falling prices. The value of a stock in which a fund invests may decline due to general weakness in the stock market or because of factors that affect a company or a particular industry.

#### *Risks of bond investing*

Bonds have two main sources of risk. *Interest rate risk* is the risk that a rise in interest rates will cause the price of a debt security held by the fund to fall. Securities with longer maturities typically suffer greater declines than those with shorter maturities. Mortgage-backed securities can react somewhat differently to interest rate changes because falling rates can cause losses of principal due to increased mortgage prepayments and rising rates can lead to decreased prepayments and greater volatility. *Credit risk* is the risk that an issuer of a debt security will default (fail to make scheduled interest or principal payments), potentially reducing income distributions and market values. This risk is increased when a security is downgraded or the perceived creditworthiness of the issuer deteriorates.

#### *Foreign investing risk*

This is the risk that the fund's investments in foreign securities may be adversely affected by political and economic conditions overseas, reduced liquidity, or decreases in foreign currency values relative to the U.S. dollar.

#### *Index Fund/ETF Tracking Risk*

Tracking error is the divergence of an Index fund's performance from that of its underlying index. Tracking error may occur because of differences between the securities held in the fund's portfolio and those included in the underlying index, pricing differences, transaction costs, the fund's holding of uninvested cash and changes to the underlying index. This risk may be heightened during times of increased market volatility or other unusual market conditions. Tracking error also may result because the fund incurs fees and expenses, while the underlying index does not.



## **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Tanglewood or the integrity of Tanglewood’s management. Tanglewood has had no legal or disciplinary events applicable to this Item.

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

John F. Merrill has a minority ownership interest in a savings and loan holding company, National Advisors Holdings, Inc. (“NAH”) that has formed a federally chartered trust company, “National Advisors Trust Company” (“NATC”). NAH and NATC are regulated by the Office of Thrift Supervision. The trust company intends to provide a low cost alternative to traditional trust service providers, and Tanglewood Wealth Management, Inc. may refer clients to NATC for trust services. Tanglewood and John Merrill do not receive additional compensation for referring clients to NATC.

A conflict of interest arises because Mr. Merrill, as a result of his minority ownership interest in NAH, could indirectly benefit from a client’s engagement of NATC. Tanglewood's Chief Compliance Officer, Keith Fenstad, remains available to address any questions regarding this conflict of interest.

## **Item 11 – Code of Ethics**

Tanglewood has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct, and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, restrictions on the acceptance of significant gifts and personal securities trading procedures, among other things. All supervised persons at Tanglewood must acknowledge the terms of the Code of Ethics annually, or as amended.

Tanglewood anticipates that, in appropriate circumstances, consistent with clients’ investment objectives, it will cause accounts over which Tanglewood has management authority to effect, and will recommend to investment advisory clients or prospective clients, the purchase or sale of securities in which Tanglewood, its affiliates and/or clients, directly or indirectly, have a position of interest. Tanglewood’s employees and persons associated with Tanglewood are required to follow Tanglewood’s Code of Ethics. Subject to satisfying this policy and applicable laws, officers, directors and employees of Tanglewood and its affiliates may trade for their own accounts in securities which are recommended to and/or purchased for Tanglewood’s clients. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of Tanglewood will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code, certain classes of securities have been designated as exempt transactions, based upon a determination that these would materially not interfere with the best interest of Tanglewood’s clients. Because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code of Ethics, and to reasonably prevent conflicts of interest between Tanglewood and its clients.

Certain affiliated accounts may trade in the same securities with client accounts on an aggregated basis



when consistent with Tanglewood's obligation of best execution. In such circumstances, the affiliated and client accounts will receive securities at a total average price. Tanglewood will retain records of the trade order (specifying each participating account) and its allocation, which will be completed prior to the entry of the aggregated order. Completed orders will be allocated as specified in the initial trade order. Partially filled orders will be allocated on a pro rata basis. Any exceptions will be explained on the Order.

Tanglewood's clients or prospective clients may request a copy of the firm's Code of Ethics by contacting the firm's Chief Compliance Officer, Keith Fenstad.

## **Item 12 – Brokerage Practices (Custodian Selection)**

Tanglewood does not maintain custody of client assets that we manage although we may be deemed to have custody of client assets only due to our ability to request management fees to be debited from client accounts (*see Item 15 Custody, below*). Client assets must be maintained in an account at a "qualified custodian," generally a broker-dealer or bank. Tanglewood recommends that clients establish brokerage accounts with Charles Schwab & Co., Inc. (Schwab), a FINRA-registered broker-dealer, Member SIPC, as the qualified custodian. Schwab will hold client assets in a brokerage account and buy and sell securities when we instruct them to. Tanglewood is independently owned and operated and not affiliated with Schwab. At this time, we are not recommending other brokerage firms.

For our clients' accounts it maintains, Schwab generally does not charge separately for custody services, but is compensated by charging commissions or other fees on trades that it executes or that settle into a client's Schwab account. We negotiate with Charles Schwab & Co. to provide all our clients with transaction costs that are below Schwab's published schedule. In rare instances when Schwab must execute transactions through other firms (i.e., securities traded on foreign exchanges), Tanglewood attempts to further negotiate the best possible commission rates for the client. Offering clients the best execution and reporting at a competitive cost is our objective for all advisory accounts.

### **How We Select Brokers/Custodians to Recommend**

We seek to recommend a custodian/broker who will hold client assets and execute transactions on terms that are overall most advantageous when compared to other available providers and their services. We consider a wide range of factors including, but not limited to the following:

- combination of transaction execution services along with asset custody services (generally without a separate fee for custody)
- capability to execute, clear and settle trades (buy and sell securities for your account)
- capability to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.)
- breadth of investment products made available (stocks, bonds, mutual funds, exchange traded funds (ETFs), etc.)
- competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate them
- reputation, financial strength and stability of the provider
- their prior service to us and our other clients
- availability of other products and services that benefit us, as discussed below (*see "Products and Services Available to Us from Schwab"?*)



### **Products and Services Available to Tanglewood from Schwab**

Schwab Advisor Services (formerly called Schwab Institutional) is Schwab's business serving independent investment advisory firms like us. They provide us and our clients with access to its institutional brokerage--trading, custody, reporting and related services--many of which are not typically available to Schwab retail customers. Schwab also makes available various support services. Some of those services help us manage or administer our clients' accounts while others help us manage and grow our business. Schwab's support services are generally available on an unsolicited basis (we don't have to request them) and at no charge to us.

Here is a more detailed description of Schwab's support services:

Services that Benefit You. Schwab's institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through Schwab include some to which we might not otherwise have access or that would require a significantly higher minimum initial investment by our clients. Schwab's services described in this paragraph generally benefit you and your account.

Services that May Not Directly Benefit You. Schwab also makes available to us other products and services that benefit us but may not directly benefit you or your account. These products and services assist us in managing and administering our clients' accounts. They include investment research from both Schwab and third parties. We may use this research to service all or some substantial number of our clients' accounts, including accounts not maintained at Schwab. In addition to investment research, Schwab also makes available software and other technology that:

- provide access to client account data (such as duplicate trade confirmations and account statements);
- facilitate trade execution and allocate aggregated trade orders for multiple client accounts;
- provide pricing and other market data;
- facilitate payment of our fees from our clients' accounts; and
- assist with back-office functions, recordkeeping and client reporting.

Services that Generally Benefit Only Tanglewood. Schwab also offers other services intended to help us manage and further develop our business enterprise.

These services include:

- educational conferences and events
- technology, compliance, legal, and business consulting;
- publications and conferences on practice management and business succession; and
- access to employee benefits providers, human capital consultants and insurance providers.

Schwab may provide some of these services itself. In other cases, it will arrange for third-party vendors to provide the services to us. Schwab may also discount or waive its fees for some of these services or pay all or a part of a third party's fees. Schwab may also provide us with other benefits such as occasional business entertainment of our personnel.

Schwab has provided Tanglewood a waiver of their short-term mutual fund redemption fees. Tanglewood recognizes the effect frequent short-term trading can have on mutual fund expenses and performance and does not currently employ short-term trading as part of its management strategy. Instances when Tanglewood will rely on Schwab's fee exemption are limited to the following:



- 1) Newly transferred-in fund shares subject to redemption fees.
- 2) Unusual factors that cause Tanglewood to lose faith in a particular mutual fund's management and/or execution of the fund's stated strategy.
- 3) A dramatic and unexpected change in the global economic or investment environment that Tanglewood feels would have a detrimental impact on the fund.

### **Our Interest in Schwab's Services**

The availability of these services from Schwab benefits us because we do not have to produce or purchase them. We don't have to pay for Schwab's services. We may have an incentive to recommend that you maintain your account with Schwab based on our interest in receiving Schwab's services that benefit our business rather than based on your interest in receiving the best value in custody services and the most favorable execution of your transactions. This is a potential conflict of interest. We believe, however, that our selection of Schwab as custodian and broker is in the best interests of our clients. It is primarily supported by the scope, quality and price of Schwab's services (based on the factors discussed above - see "How We Select Brokers/Custodians to Recommend") and not Schwab's services that benefit only us.

Tanglewood's Chief Compliance Officer, Keith Fenstad, remains available to address any questions that a client or prospective client may have regarding the above Schwab arrangement and any corresponding perceived conflict of interest such arrangement may create.

## **Item 13 – Review of Accounts**

### **REVIEW OF ACCOUNTS**

#### Investment Management Services:

Reviews of advisory accounts as a whole will be completed no less often than quarterly. (The managed positions within clients' accounts will have almost continuous monitoring.)

Tanglewood's Investment Committee consisting of John F. Merrill, President, Curtis Holden, CFA, Sr. Investment Officer, and Brian J. Merrill, CFP®, Vice President is responsible for reviewing mutual funds and making asset allocation decisions. The Committee reviews the investments within each account for performance (both historical and expected) and for their continuing applicability and "fit" into the client's account based on the client's objectives and the advisory firm's outlook for such securities.

John F. Merrill makes the final decisions on all investment selections and asset allocations. He is also responsible for all buy and sell decisions. Curtis Holden, Alma Ozuna and Susan Jacobs assist John with implementing approved allocation changes in accounts.

The total number of accounts reviewed is approximately 979.

#### Financial Planning Services:

Tanglewood offers its Wealth Management clients a range of personalized financial planning services as described above in Item 4. We depend on our clients to provide all the information necessary to properly



evaluate their financial position. In providing these services, we meet directly with our clients to gather information and assess their current financial situation. Once we fully understand our client's specific needs and objectives, we develop a strategy to meet those goals. Advice is given on a "best efforts basis" and is communicated both verbally and in written format.

On an ongoing basis, it is up to each Wealth Management client to seek out our advice in the various areas of planning and to ensure all his or her Financial Planning needs have been met. Tanglewood will attempt to meet with each Wealth Management client at least annually to discuss and address financial planning issues raised by the client.

John Merrill, Brian Merrill, CFP® Jeff Speight, CFP®, Abigail Gunderson, CFP® and Keith Fenstad, CFP® work both independently and as a team as needed to help clients address their financial planning concerns.

## **REPORTING**

### Investment Management Services:

Each client's custodian sends detailed monthly reports directly to clients. These reports detail all transactions since the last report, indicate dividends and interest credited and show all positions held on the date of the report.

Tanglewood Wealth Management, Inc. prepares its own client reports no less often than quarterly. These reports show positions held at the date of the report. These portfolio reports will also categorize the securities into three asset class families: Cash & Equivalents, Fixed Income and Equities (Domestic, Global and International, Commodities and Real Estate).

The individual positions held will also indicate the cost basis (less dividend reinvest) and the percentage that security represents of the managed portfolio.

All clients of Tanglewood Wealth Management, Inc. receive daily, monthly and quarterly reports as follows:

#### Daily/Monthly:

Copies of all brokerage confirmations and related materials, which detail the purchases and sales, are sent directly from the brokerage firm to each affected account. A few days after the end of each month, the custodian sends a monthly statement directly to each client which details month-end portfolio positions and all transactions completed within the month.

#### Quarterly:

A quarterly report is issued by Tanglewood Wealth Management, Inc. which includes:

- The Asset Allocation for the Portfolio at quarter-end;
- Performance for the quarter and year-to-date;
- Activity Summary for the quarter;
- Cumulative Net Investment vs. Portfolio Value since inception



- Portfolio Holdings at quarter-end and;
- Statement of Management Fees.

While the above information is provided to all Tanglewood clients, the format of the report may vary between Wealth Management and Tanglewood Portfolios accounts.

#### Quarterly Newsletter:

This publication is issued on a quarterly basis to all clients at no extra charge. It is mailed to Wealth Management clients as part of their quarterly report package and is available to all clients via the Tanglewood online vault. The newsletter covers current investment strategies, investment performance and information about securities held within client accounts.

#### Monthly Commentaries:

These communications are issued via email to all clients at no charge. Monthly commentaries typically cover current economic and market events.

#### Financial Planning Services:

The nature and frequency of reports depend on the nature and frequency of the reviews. Reporting may be in the form of financial analysis and projections, as well as recommendations. Reporting may not be in written form.

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

Tanglewood does not directly or indirectly compensate any person or organization for client referrals.

## **Item 15 – Custody**

Tanglewood is not a broker-dealer and does not take possession of client assets. Our client assets are housed in nationally recognized brokerage firms, otherwise known as qualified custodians. Pursuant to the Custody Rule, Tanglewood is deemed to have custody of client assets only due to its ability to request management fees to be debited from client accounts. We have procedures in place to ensure fees are calculated correctly and in accordance with the clients agreed upon rates.

Clients should receive at least quarterly statements from the custodian that holds and maintains client's investment assets. They will be sent to the email or postal mailing address you provided to the custodian. Tanglewood urges you to carefully review such statements promptly and compare such official custodial records to the account statements you receive from us. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.



## **Item 16 – Investment Discretion**

Tanglewood Wealth Management, Inc. has discretionary authority over all managed accounts with regard to both the selection and proportions of securities held in managed accounts.

Tanglewood considers a number of factors when determining to purchase or sell a security for a particular client account. These factors include but are not limited to:

- Investment objective, policies and strategy of the account,
- Appropriateness of the investment to the account's time horizon and risk objectives,
- Existing levels of ownership of the investment and other similar securities
- Immediate availability of cash to fund the investment.

Either the securities selected or amounts purchased or sold could be limited by any client (as to their own account); any such limitations will be duly noted in our agreement with each client.

Trade orders for the same security (other than daily valued mutual funds) entered by Tanglewood on behalf of multiple client accounts will generally be aggregated through a single broker/dealer when possible subject to the aggregation is in the best interest of all participating clients. All clients participating in each aggregated order shall receive the average price and subject to minimum ticket charges, pay a pro-rata portion of commissions.

Instances in which client orders will not be aggregated include, but are not limited to, the following:

- Traders and/or portfolio managers determine that the aggregation is not appropriate because of market conditions; and
- Portfolio managers must effect the transactions at different prices, making aggregation unfeasible.

When trades are not aggregated there is a possibility of accounts receiving better execution over others.

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

It is the policy of Tanglewood Wealth Management, Inc. to vote proxies for all accounts for which it has voting authority in accordance with client instructions and in a manner in which Tanglewood believes it to be in the best interests of its clients. Tanglewood generally votes in accordance with the recommendations of the issuer's existing management, unless it is not prudent to do so. In the event there is a conflict of interest, Tanglewood will, at its expense, engage the services of an outside proxy voting service or consultant who will provide an independent recommendation on the direction in which Tanglewood should vote on the proposal.

A written copy of the proxy policies and procedures along with information on how your particular securities were voted are available upon request.

It is Tanglewood's policy to not vote proxies received for non-managed (Restricted) securities held within a client's managed Schwab account.

Clients may wish to have their proxies voted by an independent third party or other named fiduciary or agent, at the client's cost.



## **Item 18 – Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about Tanglewood’s financial condition. Tanglewood has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.

Tanglewood does not solicit prepayment of fees. If we did, we would be required to provide you with a copy of our balance sheet.

## **Item 19 – Additional Information**

Tanglewood has implemented a disaster recovery system, known as the “Contingency and Disaster Recovery Plan” which has been designed to enable Tanglewood to resume operations and recover client and firm records in the event of a significant business disruption, such as a natural disaster or terrorist attack. Because Tanglewood does not directly custody client’s funds or securities, a significant business disruption should not impact a client’s ability to access their funds and securities directly from the custodian. Continuity of business operations is made possible through the establishment of a regular electronic back up of records and plans to restore systems offsite to assess these records.

## **Any Questions**

Tanglewood’s Chief Compliance Officer, Keith Fenstad, remains available to address any questions that a client or prospective client may have regarding the above disclosures and arrangements.



## Part 2B of Form ADV

### Brochure Supplement

Prepared for:

John F. Merrill

Keith A. Fenstad, CFP<sup>®</sup>

Brian J. Merrill, CFP<sup>®</sup>

Jeff A. Speight, CFP<sup>®</sup>

Abigail Gunderson, CFP<sup>®</sup>

Curtis Holden, CFA

This Brochure Supplement provides information about the employees listed above that supplements the Tanglewood Wealth Management, Inc. Brochure. You should have received a copy of that Brochure. Please contact us at (713) 840-8880 if you did not receive a Brochure or if you have any questions about the contents of this supplement.

Additional information about the individuals named above may be available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).



#### Certifications/Credentials:

A number of our employees included in this Brochure Supplement have earned certifications and credentials that are described below.

- The CERTIFIED FINANCIAL PLANNER™, CFP® and federally registered CFP (with flame design) marks are professional certification marks granted in the United States by Certified Financial Planner Board of Standards, Inc.

To attain the right to use the CFP® marks, an individual must satisfactorily fulfill the following requirements:

- Education – Complete an advanced college-level course of study addressing the financial planning subject areas that CFP Board’s studies have determined as necessary for the competent and professional delivery of financial planning services, and attain a Bachelor’s Degree from a regionally accredited United States college or university (or its equivalent from a foreign university). CFP Board’s financial planning subject areas include insurance planning and risk management, employee benefits planning, investment planning, income tax planning, retirement planning, and estate planning;
- Examination – Pass the comprehensive CFP® Certification Examination. The examination, administered in 10 hours over a two-day period, includes case studies and client scenarios designed to test one’s ability to correctly diagnose financial planning issues and apply one’s knowledge of financial planning to real world circumstances;
- Experience – Complete at least three years of full-time financial planning-related experience (or the equivalent, measured as 2,000 hours per year); and
- Ethics – Agree to be bound by CFP Board’s *Standards of Professional Conduct*, a set of documents outlining the ethical and practice standards for CFP® professionals.

Individuals who become certified must complete ongoing education and ethics requirements in order to maintain the right to continue to use the CFP® marks.

- The Chartered Financial Analyst (CFA) is a qualification for finance and investment professionals, particularly in the fields of investment management and financial analysis of stocks, bonds and their derivative assets. The program focuses on portfolio management and financial analysis, and provides a general knowledge of other areas of finance.

The designation is an international professional certification offered by the CFA Institute to financial analysts who complete a series of three examinations. To become a CFA charterholder, candidates must pass each of the three six-hour exams, possess a bachelor’s degree from an accredited institution and have 48 months of qualified professional work experience. CFA charterholders are also obligated to adhere to a strict Code of Ethics and Standards governing their professional conduct.



### General Supervision Guidelines:

After discussing a client's specific investment objectives, time horizon and risk tolerance, Tanglewood provides the client with information regarding the various investment policies suitable for meeting their objectives. The client makes the final decision about what Investment Policy to implement.

On a quarterly basis the Chief Compliance Officer monitors the overall asset allocation of all client accounts to ensure actual portfolio allocations are consistent with the client's chosen investment policy. Clients are also urged to monitor trading in their own accounts by reviewing trade confirmations delivered to them and by reviewing account statements delivered to them directly from the custodian.

Tanglewood requires all officers and employees to adhere to the firm's Code of Conduct, setting the expectation that all employees hold themselves to the highest standard of professional and personal conduct. In addition, the firm maintains a Code of Ethics outlining the firm's requirement that employees must avoid all activities, interests and relationships that run contrary to the best interests of clients. At all times, Tanglewood employees must:

- 1) Place client interests ahead of Tanglewood's
- 2) Engage in personal trading that is in full compliance with Tanglewood's personal trading and reporting policies
- 3) Avoid taking advantage of their position within the firm.

A complete copy of Tanglewood's Code of Ethics is available upon request.

John F. Merrill and the firm's Chief Compliance Officer, Keith A. Fenstad, are responsible for implementing and enforcing the Code of Ethics.



## **John F. Merrill**

### **Educational Background and Business Experience**

John, born in 1948 was raised in Arlington, Texas and attended the University of Texas in Arlington (UTA) from 1966 through 1970, majoring in government and economics. In 1970, he lacked only 6 semester hours to fulfill the requirements for a degree. In 2011, John completed his education at UTA and received a Bachelor's of Science degree in University Studies.

John has been exclusively employed in the financial services industry in Houston since 1974. John founded his own financial planning and investment management firm in October, 1979 and changed its name to Tanglewood Capital Management on January 1, 1992. Tanglewood became incorporated on January 1, 2000. The firm changed its name to Tanglewood Wealth Management, Inc. on July 1, 2008.

As President and Chief Investment Officer, John oversees all investment research compiled by the firm and makes all final decisions regarding asset allocation models and investment strategies. John is an avid researcher and has authored five books of his own on the financial markets and investing.

### **Disciplinary Information, Other Business Activities and Additional Compensation**

No information is applicable to this Item.

### **Supervision**

As President and owner of the firm, John supervises all Tanglewood employees.

## **Keith A. Fenstad, CFP<sup>®</sup>**

### **Educational Background and Business Experience**

Keith has worked in the financial services and financial planning industry since 1993. He was born in Omaha, Nebraska in 1970 and moved to Houston, Texas in 1986. He attended Sam Houston State University from 1990 to 1993 and received a Bachelor of Business Administration degree majoring in Finance. Keith went on to complete the Personal Financial Planning program at the University of Houston and obtained the CERTIFIED FINANCIAL PLANNER<sup>™</sup> certification in early 2000.

Keith joined Tanglewood in 2002 as Director of Financial Planning and also serves as Tanglewood's Chief Compliance Officer. In January 2014, Keith became a 10% owner of Tanglewood.

### **Disciplinary Information, Other Business Activities and Additional Compensation**

No information is applicable to this Item.

### **Supervision**

Keith reports directly to Tanglewood's President, John F. Merrill. Mr. Merrill can be contacted at 713-840-8880.



## **Brian J. Merrill, CFP®**

### **Educational Background and Business Experience**

Brian was born in 1978 in Houston, Texas. He joined Tanglewood in January of 2002 after leaving Enron Corporation's Financial Analyst Program. A member of the Client Relationship team, he also provides marketing and portfolio management support. Additionally, he is a member of Tanglewood's Investment Committee.

He attended Southern Methodist University from 1997 to 2001 and received a B.B.A degree double majoring in Finance and Marketing. Brian went on to complete the Personal Financial Planning program at Rice University and obtained the CERTIFIED FINANCIAL PLANNER™ certification in 2014.

In January 2014, Brian became a 10% owner of Tanglewood.

### **Disciplinary Information, Other Business Activities and Additional Compensation**

No information is applicable to this Item.

### **Supervision**

Brian reports directly to Tanglewood's President, John F. Merrill. Mr. Merrill can be contacted at 713-840-8880.

As a member of Tanglewood Investment Committee, Brian is kept apprised of current investment funds, models and strategies. On a weekly basis the Investment Committee meets to discuss and review the recent market events and its impact on the Firm's investment strategy.

## **Jeff A. Speight, CFP®**

### **Educational Background and Business Experience**

Jeff was born in Kankakee, Illinois in 1965 and moved to Houston, Texas in 2006. He attended the University of Tulsa from 1983 to 1988 and received a Bachelor of Science in Business Administration degree in Finance with a minor in Management Information Systems. Jeff went on to complete the CFP® Certification Professional Education Program at the College for Financial Planning in 2000 and obtained the CERTIFIED FINANCIAL PLANNER™ certification in early 2001. In 2004-05, he completed 12 credit hours of Project Management courses at the Keller Graduate School of Management.

Jeff has worked in the financial services and investments industry since 1987, including over ten years with Charles Schwab Institutional. He joined Tanglewood in September 2012 as a member of the Client Relationship team. Other duties include developing business opportunities with professionals.

### **Disciplinary Information, Other Business Activities and Additional Compensation**

No information is applicable to this Item.



## **Supervision**

Jeff reports directly to Tanglewood's President, John F. Merrill. Mr. Merrill can be contacted at 713-840-8880.

## **Abigail Gunderson, CFP®**

### **Educational Background and Business Experience**

Abigail was born in 1969 in the Philippines and moved to Houston, Texas in 1991. She attended the Ateneo de Manila University from 1987-1991 and received a Bachelor of Science degree in Industrial Engineering. She completed the Personal Financial Planning program at the University of Houston and obtained the CERTIFIED FINANCIAL PLANNER® designation in 2006.

Abigail joined Tanglewood in April 2013 as part of the firm's Client Relationship team. She has been working in the financial services industry since 2003 and has helped design comprehensive financial and estate plans for executives, professionals, and business owners.

### **Disciplinary Information, Other Business Activities and Additional Compensation**

No information is applicable to this Item.

## **Supervision**

Abigail reports directly to Tanglewood's President, John F. Merrill. Mr. Merrill can be contacted at 713-840-8880.

## **Curtis J. Holden, CFA**

### **Educational Background and Business Experience**

Curtis was born in 1974 in Houston, TX. He attended the University of Houston first, from 1993 to 1997, and received a BBA with a major In Finance, and then from 2000 to 2001 and received a Master of Science in Finance. Curtis is a CFA charterholder and member of the Houston Society of Financial Analysts.

Curtis joined Tanglewood in November of 2013 as a Senior Investment Officer and member of the Tanglewood Investment Committee. He has worked in the Houston financial community in various capacities since 1997.

### **Disciplinary Information, Other Business Activities and Additional Compensation**

No information is applicable to this Item.



## **Supervision**

Curtis reports directly to Tanglewood's President, John F. Merrill and works closely with John directing trades and implementing the latest portfolio allocations across client accounts. Mr. Merrill can be contacted at 713-840-8880.

As a member of Tanglewood Investment Committee, Curtis is kept apprised of current investment funds, models and strategies. On a weekly basis the Investment Committee meets to discuss and review the recent market events and the strategy moving forward.