MARGIN DISCLOSURE STATEMENT

FIRST SOUTHWEST COMPANY AND/OR BROKER/DEALERS FOR WHICH IT CLEARS TRANSACTIONS

This document is being provided to you to give you some basic facts about purchasing securities on margin and to alert you to the risks involved with trading securities in a margin account. Before trading stocks in a margin account, you should carefully review your Customer Margin and Short Agreement. Consult your broker regarding any questions or concerns you may have with your margin account(s).

When you purchase securities, you may pay for the securities in full or you may borrow part of the purchase price. If you choose to borrow funds, you will open a margin account. The securities purchased serve as collateral for the loan to you. If the securities in your account decline in value, so does the value of the collateral supporting your loan, and, as a result, either the clearing firm or the introducing broker can take action, such as issue a margin call and/or sell securities or other assets in any of your accounts, in order to maintain the required equity in the account.

It is important that you fully understand the risks involved in trading securities on margin. These risks include, but are not limited to, the following:

1. **<u>You can lose more funds than you deposit in the margin account</u>.** A decline in the value of securities that are purchased on margin may require you to provide additional funds to avoid the forced sale of those securities or other securities or assets in your account(s).

2. **<u>The clearing firm or the introducing broker can force the sale of securities or other assets in your account(s)</u>.** If the equity in your account falls below the maintenance margin requirements or higher "house" requirements, the clearing firm or the introducing broker can sell the securities or other assets in any of your account(s) to cover the margin deficiency. You also will be responsible for any short fall in the account after such a sale.

3. **<u>The clearing firm or the introducing broker can sell your securities or other assets without contacting you</u>.** Some investors mistakenly believe that a clearing firm or an introducing broker must contact them for a margin call to be valid and that securities or other assets held in their accounts cannot be liquidated to meet the call unless the investor has been contacted first. **<u>This is not the case</u>**. Most firms will attempt to notify the customer of a current margin call but are not required to do so. However, even if a firm has contacted a customer and provided a specific date by which the customer can meet a margin call, the firm can still take necessary steps to protect its financial interests, including immediately selling the securities without prior notice to the customer.

4. **<u>You are not entitled to choose which securities or other assets in your account(s) are liquidated or sold to meet a margin call</u>.** Because the securities are collateral for the margin loan, the clearing firm or the introducing broker has the right to decide which security to sell in order to protect its interests.

5. **<u>The firm can increase its "house" maintenance margin requirements at any time and is not required to provide you advance written notice</u>.** These changes in firm policy often take effect immediately and may result in the issuance of a maintenance margin call. Your failure to satisfy the call may cause the liquidation or sellout of securities in your account(s).

6. **<u>You are not entitled to an extension of time on a margin call</u>.** While an extension of time to meet margin requirements may be available to customers under certain conditions, a customer does not have a right to the extension.