



CORNERSTONE
WEALTH MANAGEMENT, INC.

Investment Adviser Brochure Part 2A

This brochure provides information about the qualifications and business practices of Cornerstone Wealth Management, Inc. If you have any questions about contents of this brochure, please contact us at (925) 824.2880 or info@cornerstonewmi.com.

The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or any state Securities authority.

Additional information about Cornerstone Wealth Management, Inc. also is available on the SEC's website at www.adviserinfo.sec.gov.

The use of the term registered investment adviser does not imply a certain level of skill or training.

Financial Planning offered through Cornerstone Wealth Management, Inc., a registered investment adviser, not affiliated with LPL Financial.

Cornerstone Wealth Management, Inc.

2400 Camino Ramon, Suite 175

San Ramon, California 94583

Main Telephone (925) 824-2880

www.cornerstonewmi.com

Item 2 – Material Changes

There have been no material changes to this Brochure since the last annual amendment which was submitted on January 9, 2020.

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Item 4 – Advisory Business

Cornerstone Wealth Management, Inc. (“the Adviser or CWM”) has been in business since 2009 and the principal owner is Richard Patrick Arzaga.

Financial Planning Services

The Adviser provides financial planning and consulting services consistent with a client’s financial and tax status, in addition to their risk tolerance and investment objectives. Financial plans and financial planning may include, but are not limited to: investment, retirement, college debt and credit planning; life insurance and tax concerns. The Adviser also evaluates client insurance coverage and needs.

Clients may impose restrictions in investing in certain securities or types of securities in accordance with their values or beliefs. However, if the restrictions prevent CWM from properly servicing the client account, or if the restrictions would require CWM to deviate from its standard suite of services, CWM reserves the right to end the relationship.

Financial Planning Conflicts of Interest

There is an incentive for the Adviser offering financial planning services to recommend products or services for which the Adviser or an associated person may receive compensation. A conflict of interest is created whenever the Adviser or an associated person of the Adviser recommends products or services to a client for which the Adviser or an associated person receives compensation.

However, financial planning clients are under no obligation to act upon any recommendations of the Adviser or to execute any transactions through the Adviser or an associated person if they decide to follow the recommendations.

Assets Under Management

The Adviser does not manage assets. The Adviser doesn’t provide portfolio management services to wrap fee programs.

Item 5 – Fees and Compensation

Financial Planning Fees

The Adviser charges clients an hourly or fixed fee for financial planning services. Fees are negotiable. Clients are billed at an hourly rate that ranges from \$290 to \$475 an hour or a fixed fee that ranges from \$4,900 to \$25,000 based on the range and complexity of the services provided. Advisory clients should note that fees for comparable services vary and lower or higher fees for comparable services may be available from other sources.

The Adviser provides clients with an estimated total fee in the agreement the client signs and a deposit is required upon signing the agreement. The balance is due upon delivery of the financial plan.

If clients elect to implement recommendations made in a financial plan, their accounts may incur transaction costs, retirement plan administration fees, and other mutual fund annual expenses that are charged by broker-dealers, plan administrators or mutual fund companies that sell securities or provide additional services to Adviser clients. These fees are in addition to and separate from planning and consulting fees.

The Adviser anticipates that the financial plan produced will be delivered within six months or sooner of the date of the agreement. The Adviser considers fees for financial planning to be earned as progress is realized toward creation of the plan. Under no circumstances will the Adviser earn fees in excess of \$500 more than six months in advance of services rendered.

Clients will have a period of five (5) business days from the date of signing an agreement to unconditionally rescind the agreement and receive a full refund of all fees. Thereafter, either party may terminate the agreement prior to delivery of the plan with written notice. Upon early termination, the Adviser will prorate fees based on the amount of work completed at the point of termination and will refund any unearned portion of the fee. Fees will be returned within fourteen days to the client via check.

Financial Planning Disclosure: In accordance with CCR Section 260.235.2, we are required to disclose if a conflict exists between the interests of the investment adviser and the interests of the client. If so, the client is under no obligation to act upon the investment adviser's recommendation, and, if the client elects to act on any of the recommendations, the client is under no obligation to affect the transaction through the investment adviser.

Receipt of Additional Compensation

Investment adviser representatives may receive brokerage or mutual fund trail commissions from the sale of securities, in their capacity as registered representatives of LPL Financial, a registered broker-dealer, member of the Financial Industry Regulatory Authority, Inc. ("FINRA"), the Securities Investor Protection Corporation ("SIPC"), and a registered investment adviser.

This practice provides an incentive to recommend investment products based on the compensation to be received rather than on the client's needs.

A conflict of interest is created whenever the Adviser or an associated person of the Adviser recommends products or services to a client for which the Adviser or an associated person receives compensation.

The Adviser monitors trading practices and regularly reviews client securities transactions in order to protect clients against this conflict of interest. Clients are advised that they are not required to purchase or sell securities through the investment adviser representatives acting in the capacity of registered representatives of LPL Financial and may purchase the same securities or products from an unaffiliated broker-dealer.

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

The Adviser does not charge or receive, directly or indirectly, any performance-based fees.

Item 7 – Types of Clients

The Adviser provides advisory services to:

- Individual – Trusts, estates, 401(k) plans and IRAs of a household count as one individual.
- High net worth individuals – An individual who is a “qualified client” under rule 205-3 of the Advisers Act of 1940 or is a “qualified purchaser”.
- Business entities including sole proprietorships
- Real estate investors
- Other financial planners

Account Minimums

The Adviser does not impose a minimum account requirement on clients.

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

Method of Analysis

The Adviser’s main sources of financial information are prospectuses, research materials prepared by others, corporate rating services, annual reports and company releases.

Fundamental Analysis

The Adviser uses fundamental analysis. Fundamental analysis involves predicting the price movement of an asset based on measures that are related to the underlying business. This method is used to judge the performance of management. (Although it is important to note that things outside of management’s control can impact performance.) Comparing the margins of the company and its relative performance to that of two or three of its peers will give an idea of whether the performance is potentially outside of management’s control.

Technical Analysis

Technical analysis involves predicting the price movement of an asset based on factors unrelated to the underlying business (price, volume, and open interest, among other factors, to detect and interpret patterns to predict the movement of individual securities, an industry or the broad market).

Charting is a subsector of technical analysis and also focuses on predicting price movements of assets based on patterns that are formed by the price movements.

The Adviser may recommend one or a combination of assets and investment strategies as follows:

Mutual & Exchange Traded Funds

The Adviser recommends index and actively managed, mutual and exchange traded funds when designing client portfolios. The Adviser considers index funds based on how closely the funds' characteristics mirror the indices they track.

The Adviser analyzes actively managed funds by comparing funds that target the same market sector and have the same investment style using prospectuses and other sources of information.

The Adviser reviews the following prior to recommending funds to clients:

- Rank in Category over various periods
- Return Rating
- Risk Rating
- YTD Return (Outsize swings in comparisons to peers can be a sign of risky practices such as placing large bets on certain sectors of the market.)
- 1 Yr Return
- 3 Yr Return
- 5 Yr Return (Typically over a five-year period, the economy experiences a complete cycle. However, the way in which a manager operates in various economic environments reflects the manager's ability to make adjustments or stay the course.)
- Loads
- Total Expense Ratios
- Net Assets
- Turnover
- Median Market Capitalization
- Third Party Ratings

The Adviser also takes the manager or management team tenure under consideration to determine who was responsible for generating the performance numbers.

Variable Annuities

A variable annuity ("VA") is an insurance contract with an investment component so a salesperson must hold securities and insurance licenses. Investments are typically managed through pooled investment vehicles called subaccounts. The Adviser analyzes VA contracts based on the contract and subaccount features. The criterion used to analyze subaccounts is similar to the processes used for mutual and exchange traded funds. Variable annuities typically offer:

- Regular stream of income or a lump sum payout at a future time
- Tax-deferred treatment of earnings
- Death benefits

Clients generally pay sales charges or commissions at the time of purchase or charges may be deferred until the VA is sold. Deferred charges typically vary based on how long the VA is held. A portion of the annual operating expenses collected from a client may be paid to a salesperson, in addition to other payments classified as trailing sales charges.

Investment Strategies

The Adviser works with each client to design an appropriate investment strategy based on their financial and tax status, risk tolerance and investment objectives. The Adviser usually recommends investment strategies for the long-term, but may occasionally recommend short-term investment and hedging strategies. The Adviser generally recommends a target asset mix with periodic rebalancing.

Risk of Loss

Clients are advised that investing in securities involves the risk of loss of the entire principal amount invested including any gains. Clients should not invest unless they are able to bear this risk. Any of the above investment strategies may lead to a loss on investments.

Even hedging strategies may fail if markets move against the hedged investments. In addition, investing carries with it opportunity risk. It is impossible to accurately predict the sectors of the market or asset classes that will have more favorable returns for a given period.

Item 8.A – Frequent Trading of Securities

The Adviser is not involved in the frequent trading of securities.

Item 8.B – Material Risks of Particular Securities

The Adviser doesn't recommend any type of security that involves significant or unusual risks except for the following which may present material risks to investors.

Variable annuities – Since compensation from VAs to a salesperson varies, there is a conflict of interest since there is an incentive to recommend a VA with a higher payout. VAs may also be subject to:

- Taxes and federal penalties for early withdrawal
- Surrender charges for early withdrawal can last for several years
- Earnings taxed at ordinary income tax rates
- Mortality expense to compensate the insurance company for insurance risks
- Fees and expenses imposed for the subaccounts
- Other features with additional fees and charges
- Investment losses

Item 9 – Disciplinary Information

The Adviser does not have any disciplinary information to disclose.

Item 9.A – Criminal or Civil Actions

Neither the Adviser nor any management person has been found guilty of or has any criminal or civil actions pending in a domestic, foreign or military court.

Item 9.B – Administrative Proceedings

Neither the Adviser nor any management person has any administrative proceedings pending before the SEC, any other federal regulatory agency, any state regulatory agency, or any foreign financial regulatory authority.

Item 9.C – Self-Regulatory Organization (“SRO”) Proceedings

Neither the Adviser nor any management person has been found by any SRO to have caused an investment-related business to lose its authorization to do business, or to have been involved in a violation of the SRO’s rules, or been barred or suspended from membership or from association with other members, or expelled from membership, otherwise significantly limited from investment-related activities, or fined.

Item 10 – Other Financial Industry Activities and Affiliations

Item 10.A – Broker-Dealer Registration

Associated persons of the Adviser may be registered representatives of LPL Financial. In their capacity as registered representatives, associated persons may recommend securities or other products and receive normal transaction fees, commissions or other compensation. A conflict of interest is created whenever associated persons of the Adviser recommend products or services to a client for which the associated person receives compensation.

Clients are under no obligation to act upon any recommendations of associated persons or affect any transactions through associated persons if they decide to follow their recommendations.

Item 10.B – Futures Commission Merchant/Commodities

Neither the Adviser nor any management person is a commodity broker/futures commission merchant, a commodity pool operator, commodity trading advisor or an associated person for the foregoing entities; nor do they have any registration applications pending.

Item 10.C – Relationships with Related Persons

Certain associated persons are insurance agents appointed with various insurance companies.

Richard Patrick Arzaga is the owner of Insurance Whisperer Associates, LLC, an insurance company and holder of insurance related trademarks. Richard Patrick Arzaga is also a licensed real estate broker, however his license is currently inactive.

In these capacities associated persons of the Adviser may recommend insurance or other products, and receive commissions and other compensation if products are purchased through any firms with which any associated persons are affiliated. A conflict of interest is created whenever associated persons of the Adviser recommend products or services to a client for which the associated person receives compensation.

However, clients are under no obligation to act upon any of their recommendations or execute any transactions through them if they decide to follow their recommendations.

Item 10.D – Relationships with Other Advisers

Associated persons provide services that involve investment management or supervision through LPL Financial, a registered investment adviser. These relationships present a conflict of interest since associated persons will receive compensation through LPL Financial for the services that they perform.

The Adviser informs clients that they are under no obligation to act upon any recommendations or execute any transactions through associated persons if they decide to follow the recommendations and may elect to do business with other advisers or broker-dealers at any time.

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

Item 11.A – Code of Ethics

The Adviser has adopted a Code of Ethics that sets forth standards of conduct expected of advisory personnel and to address conflicts that arise from personal trading by advisory personnel. Advisory personnel are obligated to adhere to the Code of Ethics, and applicable securities and other laws.

The Code covers a range of topics that may include: general ethical principles, reporting personal securities trading, exceptions to reporting securities trading, reportable securities, initial public offerings and private placements, prohibited purchases and sales, insider trading, prohibited activities, conflicts of interest, gifts and entertainment, confidentiality, service on a board of directors, reporting ethical violations, distribution of the Code, review and enforcement processes, amendments to Form ADV, supervisory procedures, compliance with laws and regulations, procedures and reporting, certification of compliance, training and education, recordkeeping, annual review, and sanctions. The Adviser will provide a copy of the Code to any client or prospective client upon request.

Item 11.B – Participation or Interest in Client Transactions Principal Trading

Neither the Adviser nor any affiliated broker-dealer affects securities transactions as principal with the Adviser's clients. Neither the Adviser nor any associated person acting as a principal, buys securities from (or sells securities to) clients, acts as general partner in a partnership in which Adviser solicits client investments, or acts as an investment adviser to an investment company that the Adviser recommends to clients.

Personal Trading of Associates Affiliated with a Brokerage Firm

In their capacity as registered representatives or principals of LPL Financial, associated persons of the Adviser may receive payments from certain mutual funds distributed pursuant to a 12b-1 distribution plan, or other such plans, as compensation for administrative services, representing a separate financial interest. As such, a conflict of interest will exist with respect to recommendations to buy or sell securities. In all cases, recommendations are made in the best interests of the client.

The Adviser does not permit insider trading and has implemented procedures to ensure that its policy regarding insider trading is being observed by associated persons.

Agency-Cross Action Transactions

Neither the Adviser nor any associated person recommends that clients buy from or sell securities to other clients.

Additional Conflict of Interest Disclosures

The Adviser (or associated persons or the Adviser) receive the following additional compensation:

- 12b-1 fees
- Securities Sales Commissions
- Commissions on the sale of insurance or other products
- Marketing-support payments from a mutual fund's investment adviser
- Sales Compensation (including asset-based sales charges, bonuses, trailing fees, service fees and offsets against adviser fees)

The Adviser is subject to the following circumstances related to investment limitations imposed by the Adviser or third parties:

- Limitations on share class availability due to Adviser business or service providers used
- Limitations imposed by a fund, clearing broker or custodian (i.e. platform limits certain share classes, fund or platform imposes minimum investment requirements)
- Limitations that the Adviser imposes (i.e. type or class of clients, advice, or transactions, etc.)

The Adviser considers the following factors when making recommendations to clients regarding share classes with different fee structures:

- Whether the IA would bear the cost of a transaction fee versus no cost to the adviser
- How the adviser chooses between a share class with a 12b-1 fee but no transaction fee and a share class of the same fund with a transaction fee but no 12b-1 fee
- The availability of different share classes of the same fund that represent the same underlying investments but generate different compensation
- The impact on investment return over time of different sales charges, transaction fees and ongoing fees

Any of the above situations will result in a conflict of interest by creating an incentive for the adviser or associated persons to recommend a particular investment product or service.

The Adviser informs clients that they are under no obligation to act upon any recommendations or execute any transactions and may elect to do business with other advisers or broker-dealers at any time.

Item 11.C – Personal Trading by Associated Persons

The Adviser recommends that clients invest in various types of assets. The Adviser and its associated persons may invest in the same types of assets. Permitted investments for associated persons are all asset classes. See Item 11.D for conflicts of interest.

Item 11.D – Conflicts of Interest with Personal Trading by Associated Persons

Associated persons may own an interest in or buy or sell for their own accounts the same securities, which may be recommended to advisory clients. Associated persons seek to ensure that they do not personally benefit from the short-term market effects of their recommendations to clients and their personal transactions are regularly monitored.

Associated persons are aware of the rules regarding material non-public information and insider trading. Associated persons may also buy or sell a specific security for their own account based on personal investment considerations, which the Adviser does not deem appropriate to buy or sell for clients.

Item 12 – Brokerage Practices

Item 12.A – Factors in Selecting or Recommending Broker-Dealers

Associated persons in their capacity as registered representatives of LPL Financial may suggest that clients implement recommendations through LPL Financial.

If the client so elects, associated persons would receive normal and customary commissions in their capacities as registered persons of LPL Financial presenting associated persons with a conflict of interest. Furthermore, in implementing a financial plan, clients may pay commissions or fees that are higher or lower than those that may be obtained elsewhere for similar services. Clients are advised that they are under no obligation to implement the plan or its recommendations through the associated persons in their capacities as registered representatives.

Item 12.A1 – Research and Other Soft Dollar Benefits

The Adviser does not receive soft dollars generated by the securities transactions of its clients. The term "soft dollars" refers to funds which are generated by client trades being used by the Adviser to purchase products or services (such as research and enhanced brokerage services) from or through the broker-dealers whom the Adviser engages to execute securities transactions.

Item 12.A2 – Brokerage for Client Referrals

The Adviser does not refer clients to particular broker-dealers in exchange for client referrals from those broker-dealers.

Item 12.A3 – Directed Brokerage

The Adviser does not recommend or require that clients direct their brokerage business to any particular broker-dealer.

Item 12.B – Trade Aggregation

The Adviser does not aggregate the purchase or sale of securities for various client accounts because the Adviser provides financial planning services only.

Item 13 – Review of Accounts

Once finalized all financial plans are reviewed by Richard Patrick Arzaga, Founder/CEO. There are no additional reviews unless CWM is engaged for additional financial planning services, standard financial planning fees would apply.

Advisory account statements are generated no less than quarterly. These statements are sent directly to the account owner from their broker-dealer, product sponsors, custodian or retirement plan administrators. These reports list the account positions, activity in the account over the covered period, and other related information. Clients are also sent confirmations following each brokerage account transaction.

Item 14 – Client Referrals and Other Compensation

The Adviser does not have an arrangement under which it or its associated persons compensate others for client referrals.

The Adviser doesn't receive any economic benefit for providing advisory services to clients from a person who is not a client. This includes sales awards or prizes.

Item 15 – Custody

The Adviser doesn't accept custody of client funds or securities. Client assets are held by qualified custodians.

Item 16 – Investment Discretion

The Adviser offers financial planning and consulting services only.

Item 17 – Voting Client Securities

The Adviser does not accept authority to vote proxies on behalf of clients as a matter of policy. Clients will receive their proxy information directly from their custodian.

Clients may contact the Adviser with questions about a particular solicitation by telephone at (925) 824-2880 [or info@cornerstonewmi.com](mailto:info@cornerstonewmi.com).

Item 18 – Financial Information

There is no financial condition that is reasonably likely to impair the Adviser's ability to meet its contractual commitments to its clients. The Adviser has not been the subject of a bankruptcy petition at any time during the past ten years.

The Adviser anticipates that the financial planning process will be completed within six months or sooner of the date of the agreement. The Adviser considers fees for financial planning or consulting services to be earned as services are provided. Under no circumstances will the Adviser earn fees in excess of \$500 more than six months in advance of services being rendered.

Item 19 – Requirements for State Registered Advisers

Item 19.A – Management Biographical Information

Refer to Item 2 and the Part 2B Supplement for management person information. All material conflicts of interest are disclosed regarding the investment adviser, its representatives or any of its employees, which could be reasonably expected to impair the rendering of unbiased and objective advice.

Item 19.B – Outside Business Activities

Associated persons spend approximately 90% of their time involved in LPL Financial related activities. For additional information about these activities see Item 10.

Item 19.C – Performance Based Fees

Neither the Adviser nor any supervised person of the Adviser is compensated for advisory services with performance-based fees.

Item 19.D – Arbitration Claims, Litigation and Other Proceedings

Neither the Adviser nor any management person has been found liable as a result of any arbitration claim, or civil, self-regulatory organization, or administrative proceeding.

Item 19.E – Relationships with Issuers of Securities

Neither the Adviser nor any management persons has any relationship or arrangement with any issuer of securities.