

Item 1: Cover Page

Heaton Adams Financial Services, LC

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This brochure provides information about the qualifications and business practices of Heaton Adams Financial Services, LC. If you have any questions about the contents of this brochure, please contact us as (319) 232-1943 or karla@heatonadams.com. 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.

Heaton Adams Financial Services, LC is a registered investment advisor. Being a “registered investment advisor” or describing ourselves as being “registered” does not imply a certain level of skill or training.

Additional information about Heaton Adams Financial Services, LC is also available on the SEC’s website at www.adviserinfo.sec.gov. You can search this site by a unique identifying number known as a CRD number. The CRD number for Heaton Adams Financial Services, LC is 115511.

To obtain our firm brochure and brochure supplements (information regarding each of our investment advisor representatives), our Code of Ethics, or our Privacy Policy, please send your request to or call Karla R. Hoppes, Chief Compliance Officer, using the address or phone number listed above. Requests may also be sent via email to karla@heatonadams.com.

This brochure was last updated on March 31, 2011.

Item 2: Summary of Material Changes

Our firm brochure is substantially modified from its prior version, and contains new information for the benefit of our clients.

In this “Summary of Material Changes” we discuss only the material changes since the last update of this brochure on June 29, 2010:

- (1) Redesign. The Securities and Exchange Commission (“SEC”) recently published amendments to the rules for firm brochures. This brochure is redesigned in narrative format and is materially different in its structure. This brochure also contains new information now required by the SEC’s new rules.
- (2) Conflicts. We provide additional disclosures regarding material conflicts of interest which may exist, and how we manage those conflicts in order to keep our clients’ best interests in mind at all times. Specifically, we provide enhanced disclosures regarding our relationships with qualified custodians and certain investment product providers whom we recommend to and use for our clients. Please refer to Items 5, 11 and 12 of this brochure.
- (3) Investment Strategies and Risks. We provide a more extensive review of our investment policies and practices, and the risks associated with those strategies, and the risks of specific asset classes or investment products we may recommend to our clients. Please refer to Item 8 of this brochure.
- (4) Amount of Assets Managed. Our assets under management increased to \$47,849,177 as of December 31, 2010. Please refer to Item 4 of this brochure.
- (5) Custody. We further explain our firm practices with regard to our non-acceptance of “custody” of client accounts except for the authority to withdraw advisor fees. We have chosen to utilize an independent qualified custodian, Fidelity Investments, for the safety of our clients’ funds. Fidelity Investments provides separate monthly or quarterly statements directly to our clients detailing their account holdings. Please refer to Item 15 of this brochure. We also encourage each of our clients to carefully review the account statements received from the qualified custodian, and to compare those statements to the quarterly or other consolidated portfolio reports our firm provides.
- (6) Investment Advisor Representative Biographies. We include the new Form ADV, Part 2B for each of our investment advisors who directly provide advice to you, or who may assist in the management of your investment portfolio. Please refer to each Form ADV, Part 2B Investment Advisor Representative Biography, included at the end of this brochure.

- (7) Delivery of Amendments to this Brochure. In the past we have offered or delivered information about our qualifications and business practices to clients on at least an annual basis. We review and update this brochure at least annually, in order to ensure that it remains current. Pursuant to new SEC rules, we will provide each of our clients with a summary of any material changes for subsequent annual updates to brochures by April 30th of each year. We will further provide our clients with additional information regarding material changes at our firm at other times, within a reasonable time after such changes occur.

Due to the extensive changes to this brochure, we suggest that all of our clients review this document, in its entirety, upon receipt. We also encourage our clients to review this brochure, and any questions they may have regarding this brochure, with their Investment Advisor Representative.

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Item 4: Advisory Business

Our Firm's History

Heaton Adams Financial Services, LC was formed in 2001 by Robert M. Heaton to provide clients of Heaton Adams & Co., a Professional Corporation of Certified Public Accountants, with a choice for competent, independent and knowledgeable investment advice.

Our Firm's Principal Owner

Robert M. Heaton is the principal owner of Heaton Adams Financial Services, LC and is also a principal in Heaton Adams & Co. Robert M. Heaton has been a Certified Public Accountant since 1975 and a Certified Financial Planner since 1987. We encourage our clients to read Robert M. Heaton's Investment Advisor Representative Biography found at the end of this document.

As Robert M. Heaton is an owner in both firms and receives compensation from both firms, we have disclosed details about this conflict of interest and how we address it in Item 10: Other Financial Industry Activities and Affiliations.

Amount of Assets under Management

As of December 31, 2010, Heaton Adams Financial Services, LC had \$47,849,177 in discretionary assets under management. We also provided investment services to participant-directed employee retirement benefit plans on a non-discretionary basis.

Advisory Programs (Types of Services) Offered

We offer the following advisory services to clients:

Portfolio Management Services

We provide Investment Supervisory Services, defined as giving continuous advice to a client or making investments for a client based on the individual needs of the client. Our process for providing this service begins with having personal discussions with a client and their professional advisors. A client's goals and objectives are established through these discussions. From the client's goals and objectives, we develop the client's financial plan and investment policy schedule. We then create and manage the client's portfolio per their personal financial plan and investment policy schedule.

We create client portfolios consisting mainly of mutual funds and individual fixed income vehicles such as bonds and CDs. We primarily recommend mutual funds offered

by Dimensional Fund Advisors (DFA). DFA sponsored mutual funds follow a passive asset class investment philosophy with low holdings turnover. We allocate the client's assets among various investments taking into consideration the overall investment and financial plan for the client.

To learn more about how we create portfolios and why we use mostly DFA funds, please see Item 8: Methods of Analysis, Investment Strategies, and Risk of Loss.

Clients will have the opportunity to place reasonable restrictions on the types of investments which will be made on their behalf. Clients will retain ownership of all investments.

We provide Portfolio Management Services to individuals, pension and profit sharing plans, trusts, charitable organizations, and corporations. We manage advisory accounts on a discretionary basis.

See the table in Item 5: Fees and Compensation for the advisor fee that is applied to client accounts using Portfolio Management Services.

Employee Benefit Plan Services

We provide Employee Benefit Plan Services to participant-directed employee retirement benefit plans. We analyze the plan's current investment platform, and assist the plan in creating an investment policy schedule defining the types of investments to be offered and the restrictions that may be imposed. We recommend investment options to achieve the plan's objectives, provide participant education meetings, quarterly newsletters, and monitor the performance of the plan's investment offerings.

See the table in Item 5: Fees and Compensation for the advisor fee for Employee Benefit Plan Services.

Financial Planning

Financial planning is a core component of the services we provide to our Portfolio Management clients. We do not offer this service as a stand-alone service.

Non-Participation in Wrap Fee Programs

Our firm does not participate in any wrap fee programs.

Item 5: Fees and Compensation

Portfolio Management Services/Employee Benefit Plan Services

For clients who engage us for Portfolio Management Services or Employee Benefit Plan Services our annual advisor fee is based on a client's total advised assets. Advised assets generally consist of client's securities accounts on which we provide advice and/or manage the assets. The annual fee applies as follows:

| <u>Advised Assets</u> | <u>Annual Fee (%)</u> |
|-----------------------|-----------------------|
| First \$500,000 | 1.00% |
| Assets over \$500,000 | 0.50% |

Clients are billed at the end of each calendar quarter for one quarter of the annual fee. If we only provide Portfolio Management Services or Employee Benefit Plan Services for a part of the previous quarter, the fees are prorated for the specific number of days the services were provided.

Fees are calculated based on the value of the client's account(s) at the end of the previous quarter. The client's custodian (brokerage firm holding the client's assets for safekeeping) serves as the primary pricing source for the valuation of the securities held and provides the value of the account(s) to us. We have adopted procedures to handle any pricing errors, adjustments or corrections that may occur.

After each quarter end, we provide clients with quarterly consolidated reports showing the amount of our fee, the value on which our fee is based, and how the fee was calculated. The custodian deducts the fee directly from a client's account each quarter and pays it to us. As a part of their normal reporting, the custodian will show all amounts paid from a client's account, including our fees. We encourage our clients to verify the fee computations and to compare our quarterly consolidated reports to the statements issued by their custodian.

The following is an example of how our advisor fee is calculated:

Client A hires us to manage their investment portfolio beginning January 1. On March 31, the market value of their portfolio is \$1,000,000. The fee for the first quarter will be \$1,875. The quarterly fee is calculated as follows: $(\$500,000 \times 1.00\%) + (\$500,000 \times 0.50\%) = \$7,500$. $\$7,500 / 4 \text{ quarters} = \$1,875$.

Although there is no minimum account size required, we do require a minimum quarterly fee of \$1,000. An annual account fee will never exceed 3.00% of a client's assets under management.

Along with our advisory fee described above, we may also charge a one-time administrative fee not to exceed \$1,000. This fee is based on each client's individual circumstances and reflects the time required to establish new accounts and to transfer in assets. The fee is determined and charged following the establishment and funding of new accounts.

All individual or small business clients retaining us for Portfolio Management Services will receive financial planning and advice as a part of the above-stated fee. Participant-directed employee benefit plans and other businesses or foundations will receive other similar planning advice applicable to such entities such as investment policy development and employee seminars as a part of the above-stated fee.

General Information on Fees

In certain circumstances, all fees (including minimum fees) may be negotiable. Minimum fees are generally only negotiable where an account belongs to the family member of another client.

A client agreement may be canceled at any time, by either party, for any reason upon receipt of 30 days written notice. Upon termination of any account, unpaid fees will be due and payable. We do not charge any prepaid fees; all fees are charged after services are provided.

Other Fees or Expenses Paid in Connection with Advisory Services: Products and Custodians

All fees paid to us for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds to their shareholders. Mutual fund expenses are generally described in each fund's prospectus. These expenses will generally include a management fee, other fund expenses, and possibly a distribution fee. In addition, mutual funds incur transaction costs and opportunity costs, which are not disclosed in the fund's prospectus or Statement of Additional Information, but which may be estimated.

Clients will incur transaction fees or commissions in connection with trading mutual funds, individual stocks and bonds (and/or principal mark-ups and mark-downs for principal trades) which are charged by the custodian. Mutual fund transaction fees charged by our recommended custodian, Fidelity Investments, are generally \$24 for each purchase and each sale transaction. The transaction costs for stock and bond trades vary.

To fully understand the total amount of fees and costs paid by a client, in connection with any recommended transaction, the client should review the following:

- fees charged by the funds (including transaction and opportunity costs within funds which are not included in a fund's annual expense ratio),
- transaction fees charged by the custodian, and

- fees charged by us.

For a discussion of our practice recommending brokers (custodians) to our clients and negotiating brokerage fees on their behalf, please see Item 12: Brokerage Practices.

Clients who transfer assets from their current custodian to Fidelity or another custodian we recommend may incur “account termination fees.” The range for these account termination fees is believed to generally range from \$0 to \$200 at present, but at times may be much higher. Clients should contact their current custodians (brokerage firms, bank or trust company, etc.) to determine the amount of account termination fees which may be charged and deducted from their accounts for any existing accounts which may be transferred to Fidelity Investments.

Our existing clients that choose to transfer their assets from Fidelity to another custodian may also incur account termination fees like those mentioned above. Currently Fidelity charges \$75 to terminate an account.

For participant-directed employee retirement benefit plans that use our Employee Benefit Plan Services, other fees are involved that are not set by us. Services such as record keeping, third party administration, and custody are typical services that are required for these types of plans. These service providers typically have fee schedules that vary depending on the size of the plan.

For participant-directed employee retirement benefit plans, we typically recommend Fidelity Investments as custodian. In this case, Fidelity charges an annual custody fee generally in the range of 0.065% to 0.10%. The annual asset based fee is in lieu of a transaction fee for each purchase and sale transaction.

Comparable Services

We believe that the charges and fees offered within our programs are competitive with alternative programs available through other firms offering a similar range of services; however, lower fees for comparable services may be available from other sources. A client could invest in mutual funds directly, without our services. In that case, the client would not receive the services provided by us which are designed, among other things, to

- assist the client in determining which mutual fund or funds are most appropriate to each client's financial condition and objectives,
- undertake a disciplined approach to portfolio rebalancing while taking into account the tax ramifications of same, and
- avoid ad hoc emotional reactions to shorter-term market events.

Also, the funds of Dimensional Funds Advisors may not be available to the client directly without the use of an investment advisor granted access to such funds.

Proper Management of Conflicts of Interest Relating to the Fees We Receive from You, Relating to the Receipt of Percentage-Based Compensation

The vast majority of our clients pay us fees based upon a percentage of the assets we advise upon. This is a very common form of compensation for registered investment advisory firms and avoids the multiple inherent conflicts of interest associated with commission-based compensation. (We do not accept commission-based compensation of any nature, nor do we accept 12b-1 fees.)

The asset-advised-upon percentage method of compensation can still at times (as it may with any advisor that charges asset-based fees) lead to conflicts of interest between our firm and our client as to the advice we provide. For example, conflicts of interest may arise relating to the following financial decisions in life:

- incur or pay down debt,
- gift funds to charities or to individuals,
- purchases of a (larger) home or cars or other non-investment assets,
- the purchase of a lifetime immediate annuity,
- expenditures of funds for travel or other activities,
- investment in private equity investments (private real estate ventures, closely held businesses, etc.), and
- the amount of funds to place in non-managed cash reserve accounts.

We have adopted internal policies to properly manage these and other potential conflicts of interest. Our goal is that our advice to our clients remain in their best interests at all times, disregarding any impact of the decision upon our firm.

Item 6: Performance-Based Fees and Side-by-Side Management

We do not charge any performance based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client.) All fees are calculated as described above and are not charged on the basis of income or capital gains or capital appreciation of the funds or any portion of the funds of an advisory client.

We also do not have any supervised person who manages any account that pays performance based fees.

Item 7: Types of Clients

We provide investment advisory services to individuals, pension and profit sharing plans, trusts, charitable organizations, and corporations. We will manage advisory accounts on a discretionary or non-discretionary basis.

No Required Minimum Client Assets under Management

There is no minimum account size required for our services. As mentioned in Item 5: Fees and Compensation, there is a minimum quarterly fee requirement of \$1,000 for Portfolio Management Services.

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

We provide the investment strategy and its implementation for all clients using mostly mutual funds. Our clients receive the benefit of our developed investment philosophies and strategies, research and due diligence, account monitoring, and personal financial planning recommendations.

Our Investment Committee establishes the overall investment strategies employed by the firm, reviews the brokerage firms we recommend to our clients, and approves of particular investments which may be used by advisors of our firm. The Investment Committee includes Robert M. Heaton and Karla R. Hoppes.

Expansive academic research, investment information, and certain proprietary analyses are drawn upon by us in order to provide innovative investment advisory services. Each of our clients receives a written Investment Policy Schedule, which sets forth a recommended strategic asset allocation.

Specific no-load (no commissions, no 12b-1 fees) mutual funds and other investment products and securities are then recommended to clients. Clients' portfolios are then periodically monitored, and changes to investment portfolios are suggested when appropriate. A disciplined approach to rebalancing is employed in order to maintain asset class exposures within desired risk tolerances, subject to variances permitted for tax reduction, tax planning or other reasons.

Methods of Analyses and Investment Strategies

In designing investment plans for clients, we rely upon the information supplied by the client and the client's other professional advisors. Such information may pertain to the client's financial situation, estate planning, tax planning, risk management planning,

short-term and long-term lifetime financial goals and objectives, investment time horizon, and agreed upon risk tolerance.

This information becomes the basis for the strategic asset allocation plan which we believe will best meet the client's stated long term personal financial goals. The strategic asset allocation provides for investments in those asset classes which we believe (based on historical data and our proprietary analysis) will possess attractive combinations of return, risk, and correlation over the long term.

A tremendous amount of academic research reveals that strategic asset allocation is determinative of the majority of the expected long-term gross returns of investor's portfolios. Our selection of asset classes is driven by research into global asset classes by such academics as Professor Eugene Fama, Sr. of the University of Chicago's Booth Graduate School of Business and the Center for Research in Security Prices, Professor Kenneth French of Dartmouth College, and many other academics and researchers.

The investment advice which we provide is based upon long-term investment strategies which incorporate the principles of Modern Portfolio Theory. The utilization of several different asset classes as part of an investor's portfolio is emphasized, as this has been shown to usually effect a reduction in portfolio volatility (*i.e.*, the standard deviation of the portfolio returns) over long periods of time. We allocate and diversify the client's assets among various asset classes and then among individual investments, following the investment policy agreed to by the client.

Our investment approach is firmly rooted in the belief that markets are fairly efficient (although not always rational) and that investors' gross returns are determined principally by asset allocation decisions. A focus is provided on developing and implementing globally diversified portfolios, principally through the use of low-cost and tax-efficient passively managed stock mutual funds that are generally available only to institutional investors and clients of advisors granted access to such funds.

Investment policy and overall portfolio weightings as between equities and fixed income investments are based upon each client's financial goals, projected cash flow to/from the portfolio, and investment time horizon. Investment policy is also determined by the agreed upon risk tolerance for the portfolio which is the client's perceived risk tolerance balanced with the need to assume various risks to achieve the client's financial goals. If this balance cannot be achieved through the education process and personal conversations during the first stages of the relationship, we will decline to accept the client.

The portfolios of clients may follow models designed by us to fit the overall weightings of equities (stocks, stock mutual funds, etc.) and fixed income investments (notes, bonds, bond funds, CDs, etc.) in an investor's portfolio. For other clients, the investment portfolio's strategic asset class allocation is customized to meet the specific circumstances of a client, the presence of investments in 401(k) or other accounts, as well as a perception of the client's understanding of the fundamental forces affecting risk and return in the capital markets.

In addition, a client's initial or revised strategic asset allocation may be influenced by a review of the relative valuation levels of various asset classes and the investment time horizon of that client.

Methods of Analysis; Sources of Information

Our investment analysis is based upon a number of factors including those derived from commercially available software technology, general economic and market and financial information, and due diligence reviews. The main sources of information include commercially available investment information and evaluation services, financial newspapers and journals, academic white papers and periodicals. Prospectuses, Statements of Additional Information, and other issuer-prepared information are also utilized. Investment Committee members and advisors also attend various investment and financial planning conferences.

For new clients bringing in individual securities, our analysis to determine whether a security should be sold immediately or over time will include a review of the tax consequences. We will typically recommend selling all individual stocks in order to purchase mutual funds to create a better diversified portfolio.

Research is also received from consultants, including financial economists affiliated with Dimensional Funds Advisors (DFA) and other firms. DFA provides historical market analysis, risk/return analysis, and continuing education services. Various computer software programs from DFA and from other third parties may also be utilized to better model the historical and/or expected returns of designed portfolios.

Types of Investments

Each client typically receives an investment portfolio which consists mainly of no-load stock mutual funds. The passively managed stock mutual funds offered by Dimensional Funds Advisors (DFA) are generally recommended. DFA mutual funds offer broad diversification and most are structured for low turnover. Their low turnover substantially reduces the often high transaction costs incurred by mutual funds and ETFs as they trade securities within the fund. Consequently, the DFA stock mutual funds' total fees and costs are believed to be generally lower than the total fees and expenses incurred by most other stock mutual funds (including many ETFs and index funds) when comparing funds in the same asset class(es).

Some investment portfolios may also include individual fixed income investments (bonds, C.D.'s, etc.) and/or bond funds (primarily from DFA). In addition to equity and fixed income exposure, a client's portfolio may include real estate in the form of mutual funds (primarily DFA) made up of publicly traded real estate investment trusts (REITS). A client's portfolio may include individual equities, but these are generally part of the clients' investment holdings prior to becoming our client.

Insurance products such as annuities and various types of life insurance products may also be evaluated. Recommendations may be given to clients to invest in low-cost, no-load (no commission) variable or fixed deferred or immediate annuities when appropriate to the circumstances and tax situation of the client. Most often, this occurs when a client possesses an existing high-cost variable annuity, and a rollover of the annuity is indicated rather than redemption. The rollover may be advisable for the following reasons: 1) for tax planning purposes, 2) in order to seek to lower the total fees and costs paid by the client and/or 3) to provide different investment choices. At times clients may be advised to retain an existing annuity, previously purchased by the client, or undertake partial or full surrenders of same (and/or tax-free exchanges), following an evaluation of the annuity contract, riders thereto, investment alternatives within the annuity and their fees and costs, including any surrender fees which may be imposed by the insurance company.

New clients' existing investments are evaluated in light of the desired investment policy objectives. We work with new clients to develop a plan to transition from a client's existing portfolio to the desired portfolio. Investment advice may be offered on any investments held by a client at the start of the advisory relationship. Each client's portfolio holdings and strategic asset allocation are then monitored periodically, taking into account the cash flow needs of the client. Review meetings with clients are held regarding their investment assets under advisement and other personal financial planning issues.

Risk of Loss, Generally

Investing in securities involves a risk of loss that clients should be prepared to bear. The investment recommendations seek to limit risk through broad global diversification in equities (through broadly diversified stock mutual funds) and investment in high quality fixed income securities or diversified bond funds.

However, the investment methodology will still subject the client to declines in the value of their portfolios, which can at times be dramatic. We believe there exists a high probability in most market environments of a long-term (15-year or greater) outperformance of small cap and value stocks, relative to large cap and growth stocks, and hence the stock (equities) portion of an investor's portfolio may be "tilted" toward small cap and value stocks. Accordingly, the normally greater expected returns of the equity portion of the portfolio will in turn often permit the overall allocation to equities (stocks, stock mutual funds) to be reduced, and the allocation to fixed income investments increased. We believe this is the best manner to temper the shorter-term volatility of the stock market, especially for clients who derive cash flow from their portfolios (such as clients who are in retirement years).

Given the long-term nature of the expected equity premium (*i.e.*, the additional expected return for investing in the overall stock market, relative to less "risky" U.S. Treasury bills), and the long-term nature of the expected value and small cap effects, our investment philosophy is best suited for investors who desire a buy and hold strategy for

a substantial portion of their funds. We do not recommend frequent trading, which can increase brokerage and other costs and taxes. Our stock mutual fund strategies are usually appropriate for clients possessing an investment time horizon of a minimum of ten years, and preferably even longer. Even then, investing is inherently uncertain as to future returns.

While both macroeconomic and microeconomic risks are evaluated, for purposes of weighing risks and returns and for the computation of the expected returns of various asset classes (for use in financial planning decision-making), we do not generally engage in market-timing activities. We believe the equity, value and small cap effects are highly likely to occur in the future, over long periods of time. However, there can be no assurance that these effects will occur over any given time period. While we seek to reduce non-compensated risks to which a client may be exposed, other risks (including but not limited to the risk of a general stock market decline) may be assumed in order to seek to attain the client's longer-term financial goals and objectives; however, we cannot provide any guarantee that the client's goals and objectives will be achieved.

Risk of Loss, Certain Higher-Risk Securities

Certain securities recommended, such as U.S. small cap value and mid cap value stock mutual funds, U.S. small cap and micro cap mutual funds, and similar pooled investment vehicles inside variable annuities, possess higher levels of volatility (as individual asset classes within a portfolio). We may employ these securities as part of an overall strategic asset allocation for a client, and when such is undertaken we possess a reasonable belief that the risk-return relationship for these securities will likely be beneficial for the investor over the long term.

While we do not recommend the purchase or holding of individual common stocks, clients at times desire to retain certain existing holdings, or to purchase same. Reasons for clients' desires might include emotional ties to the stock and/or the presence of substantial unrealized capital gains, or other reasons. When individual common stocks (and related types of individual securities, such as American Depositary Receipts) are held in a client's investment portfolio, the client remains exposed to "specific company risk."

While all Certificates of Deposit (CDs) purchased for our clients are FDIC-insured, the pricing of certain of these CDs, which trade in the secondary market, can vary; accordingly, due to price declines and/or transaction costs associated with trading, these CDs could lose value if redeemed prior to maturity. When CDs are recommended to clients, it is our intent that clients hold the CDs to maturity.

Cash Balances in Client Accounts

Cash in clients' investment accounts are typically swept into the bank or money market mutual fund accounts of the institutions (Fidelity Investments). We discuss with each client, during the time of review conferences and at other times, upcoming cash flow

needs and seek to plan accordingly to meet those needs. While it is not the practice to encourage clients to maintain a large amount of cash in their accounts, such may be undertaken at the request of the client.

Should the client desire a “cash reserve account,” we will assist the client to establish a separate, non-managed cash reserve account, which is not monitored thereafter by us typically with the bank of their choice. We then seek to review with the client, during periodic conferences, whether any funds are needed to restore cash reserves. We exclude separate accounts established for cash reserve purposes in the calculation of assets under advisement and exclude the value of cash reserve accounts from a client’s fee calculations.

Additionally, smaller cash amounts may be maintained in order to facilitate billing of our periodic fees, which may possess the effect of slightly reducing the portfolio’s returns in periods when overall positive returns occur in the portfolio in excess of the interest rate paid on cash or cash equivalent deposits.

Item 9: Disciplinary Information

Registered investment advisors are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Heaton Adams Financial Services, LC or the integrity of our management. Heaton Adams Financial Services, LC and our investment advisor representatives currently have no material disciplinary information to disclose.

Item 10: Other Financial Industry Activities and Affiliations

Robert M. Heaton, Managing Member of Heaton Adams Financial Services, LC is also President and a Certified Public Accountant for Heaton Adams & Co., PC an Iowa accounting firm. Heaton Adams & Co., PC provides accounting services and tax planning to select clients. Heaton Adams Financial Services, LC’s advisory clients may also be Heaton Adams & Co., PC accounting clients. However, no Heaton Adams Financial Services, LC’s advisory client is obligated to use any Heaton Adams & Co., PC accounting services, and no Heaton Adams & Co., PC accounting client is obligated to use any Heaton Adams Financial Services, LC’s investment advisory or financial planning services. Heaton Adams Financial Services, LC is not utilized to solicit clients for Heaton Adams & Co., PC. No referral fees are paid to either of these entities from the other respective entity. All accounting fees charged by Heaton Adams & Co., PC are separate and distinct from all advisory fees charged by Heaton Adams Financial Services, LC.

Robert spends about 50% of his business time on the accounting practice.

Karla R. Hoppes, Chief Compliance Officer of Heaton Adams Financial Services, LC, is also employed by Heaton Adams & Co., PC and provides support for accounting services and tax planning. See the description of conflicts and how they are addressed in the information provided for Robert M. Heaton above.

Karla spends about 5% of her business time on the accounting practice.

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

Generally, we seek to avoid material conflicts of interest.

Accordingly, Heaton Adams Financial Services, LC and its investment advisor representatives do not receive any third party direct monetary compensation (*i.e.*, commissions, 12b-1 fees, or other fees) from brokerage firms (custodians) or mutual fund companies.

However, some additional services and non-direct monetary or other forms of compensation are offered and provided to us as a result of our relationships with custodian(s) and/or providers of mutual fund products. For example, our investment advisors and employees may be invited to attend educational conferences and/or entertainment events sponsored by such brokerage firms or custodians or mutual fund companies. Other services may be provided as outlined below. We believe that the services and benefits actually provided to us by brokerage firms (custodians) and mutual fund providers do not materially affect the investment management recommendations made to our clients. However, in the interest of full disclosure of any potential conflicts of interest, we discuss the possible conflicts herein.

Although we believe that our business methodologies, ethics rules, and adopted policies are appropriate to eliminate, or at least minimize, potential material conflicts of interest, and to appropriately manage any material conflicts of interest that may remain, clients should be aware that no set of rules can possibly anticipate or relieve all potential material conflicts of interest.

Our Code of Ethics

We have adopted a Code of Ethics, to which all investment advisor representatives are bound to adhere. In brief, our Code of Ethics establishes rules of conduct for all employees of Heaton Adams Financial Services, LC. It is designed to govern personal securities trading activities in the accounts of employees, immediate family/household accounts and accounts in which an employee has a beneficial interest. The Code is based on the principle that Heaton Adams Financial Services, LC and its employees owe a fiduciary duty to Heaton Adams Financial Services, LC clients to conduct their affairs, including personal securities transactions, in such a manner as to avoid 1) serving their

own personal interests ahead of clients, 2) taking inappropriate advantage of their position with the firm and 3) any actual or potential conflicts of interest or any abuse of their position of trust and responsibility.

Our Code of Ethics details the firm's commitment to ethical conduct, and is used to guide the personal conduct of our various team members. This detailed Code of Ethics describes the firm's fiduciary duties and responsibilities to clients and sets forth our practices of supervising the personal securities transactions of employees with prior or concurrent access to client trade information.

We will provide a complete copy of the Code of Ethics to any client or prospective client upon request.

Participation or Interest in Client Transactions and Personal Trading

Heaton Adams Financial Services, LC does not currently participate in securities in which it has a material financial interest. Our firm and its related persons, as a matter of policy, do not recommend to clients, or buy or sell for client accounts, securities in which the firm or its related persons has a material financial interest.

Our Code of Ethics provides that individuals associated with our firms may buy or sell securities for their personal accounts identical or different than those recommended to clients. However, it is the expressed policy of our firms that no person employed by the firms shall prefer his or her own interest to that of an advisory client nor make personal investment decisions based on investment decisions of advisory clients.

To supervise compliance with the Code of Ethics, our firms require that anyone associated with this advisory practice and who possesses access to advisory recommendations (before or at the time they are entered into) ("access persons") to provide annual securities holding reports and quarterly transaction reports to our Chief Compliance Officer or his or her designee. We also require access persons to receive advance approval from our Chief Compliance Officer or his designee prior to investing in any initial public offerings or private placements, and with regard to trading of certain individual securities.

The Code of Ethics further includes our firm's policy prohibiting the use of material non-public information and protecting the confidentiality of client information. We require that all individuals must act in accordance with all applicable Federal and State regulations governing registered investment advisory practices. Any individual not in observance of the above may be subject to discipline.

Item 12: Brokerage Practices

Use of Brokerage Firms (Custodians)

Generally, we recommend that our clients use the services of Fidelity Investments. This custodian provides our registered investment advisor representatives with access to institutional trading and custody services, which services are typically not available to retail investors. These services generally are available to independent investment advisors on an unsolicited basis and at no charge to them. However, not all independent investment advisors recommend their clients use particular custodians.

Fidelity Investments Institutional Services

Heaton Adams Financial Services, LC participates in the Fidelity Institutional Wealth Services (FIWS) program. While there is no direct linkage between the investment advice given and participation in the FIWS program, economic benefits are received which would not be received if Heaton Adams Financial Services, LC did not give investment advice to clients.

The benefits provided by Fidelity Investments to us include assistance with practice management and assistance with the management of client accounts, including but not limited to: (a) receipt of duplicate client confirmations; (b) receipt of electronic duplicate statements; (c) access to a trading desk serving investment advisor firm participants exclusively, and providing research, pricing information, and other market data; (d) access to the investment advisor portion of their web sites which includes practice management articles, compliance updates, and other financial planning related information and research materials (including, for example, rating reports on individual companies from Standard and Poors' or other sources); (e) access to other vendors (such as insurance or compliance providers, or providers of research or other materials) on a discounted fee basis through discounts arranged by the custodians; (f) permitting us to access an electronic communication network for client order entry and to access clients' account information and which may otherwise assist us with its back-office functions, including recordkeeping and client reporting; and (g) conferences at which advisors and employees of our firm may attend (with no registration fees) and receive education on issues such as practice management, marketing, investment theory, financial planning, business succession, regulatory compliance, and information technology.

Participation in the custodian programs also provides access to certain mutual funds which generally require significantly higher minimum initial investments or are generally available only to institutional investors, such as the mutual funds of Dimensional Funds Advisors.

The benefits received through participation in the custodian's program do not depend upon the amount of transactions directed to, or amount of assets placed in custody with, Fidelity Investments.

Generally, many of these services may be utilized to service all or a substantial number of our clients' accounts. Educational, research, or other services provided by custodians (*i.e.*, Fidelity Investments, etc.) or mutual fund companies may benefit all of our clients, or may benefit only some clients.

Our Recommendations of Brokerage Firms

Clients are permitted to direct us to use their desired brokers. However, if such brokers are used, we may not possess access to certain mutual funds and other investments that are generally available only to institutional investors or which would require a significantly higher minimum initial investment, and commission rates paid or transaction fees paid may be higher than the fees negotiated by our firm.

While as a fiduciary we endeavor to act in our clients' best interests, our desire that clients maintain much of their assets in accounts at Fidelity Investments may be based in part on the benefit provided to our firm. This benefit includes the availability of some products and services (previously described) at no cost to us or at reduced costs. Our desire that clients maintain accounts at Fidelity is not based solely on the nature, cost, or quality of custody and brokerage services provided by the brokers, and this may create a potential conflict of interest. Our clients may, therefore, pay higher transaction fees, commissions (for individual stock and ETF trades), and principal mark-ups and mark-downs (relating to purchases and sales on a principal, as opposed to an agency, basis), than those charged by other discount brokers. However, we have negotiated fees with the custodian we recommend, and we have selected the custodian for their generally low fees relative to other large custodians. Also, please note that we prefer to recommend custodians whom possess significant size and financial resources, for purposes of enhanced safety of clients' funds. For all of these reasons, the lowest cost custodian for clients may not be recommended to clients by us.

Non-Aggregation of Client Trades

We have negotiated substantially reduced transaction costs with our recommended custodian (Fidelity), however, we have chosen not to aggregate (combine for purposes of securing reduced commissions or transaction fees) our clients' individual security trades. This is due to the fact that all trade decisions are reviewed for near-term and long-term tax efficiency, which requires individual analysis of most trading decisions. This individual analysis of trades does not lend itself to computer software programs or manual entry processes which would aggregate trades. As a result, our clients do not receive the benefits of reduced transaction fees such aggregation of trades could provide to our clients, generally. However, our clients may receive benefits from enhanced tax-efficient portfolio management, which clients of other investment advisers may not be receiving.

Mutual funds are not eligible for trade aggregation at our client's custodian (Fidelity).

Non-Participation in Client Referral Program of Custodian

Heaton Adams Financial Services, LC will continue to avoid certain relationships with custodians (brokerage firms, etc.) and investment product providers which it believes might materially hamper its independence in its providing advice to its clients or result in clients paying higher mutual fund management, administrative, or other product-related fees and costs. For this and other reasons, Heaton Adams Financial Services, LC does not participate in the client referral program which may be sponsored by such custodian.

Our Relationship with Investment Product Providers

Following a stringent interview process, we were granted access by Dimensional Funds Advisors (DFA) to its mutual funds at the time of our inception of operations. Dimensional Funds Advisors is an Austin, Texas-based mutual fund company with over 40 funds and \$207 billion of assets under management (as of December 31, 2010).

While there is no direct linkage between the investment advice given and the approval of our Registered Investment Advisory firm to access the mutual funds of Dimensional Funds Advisors, economic benefits are received which would not be received if we did not give investment advice to clients.

These benefits, which are also received by other Registered Investment Advisor firms granted access to the DFA funds, include: (a) attendance at seminars hosted by Dimensional Funds Advisors at which the investment products of Dimensional Funds Advisors are explained, academic instruction is given on asset allocation strategies, and financial planning and practice management instruction is given. Our firm pays all of the travel and hotel costs for investment advisor representatives attending these seminars. Dimensional Funds Advisors provides, at no charge to us and the other attendees at such seminars, the speakers and facilities for the seminar, occasional luncheons or dinners, and the materials handed out at the seminar; (b) access to the "financial advisor" portion of the Dimensional Funds Advisors web site (www.dfaus.com), which contains additional academic research, practice management articles, newsletters, educational video presentations, software, and investment returns data; (c) use of the DFA Returns and DFA Allocation Evaluator software programs and accompanying data, which can be utilized to ascertain how different asset classes (as represented by various indices) and different mutual funds of Dimensional Funds Advisors have performed over time and which provide a method for calculation based upon historical results of rate of return and standard deviation for those asset classes and mutual funds; (d) various print materials (including article reprints and DFA brochures); (e) occasional practice management conferences and telephone conferences with Dimensional Funds Advisors' team members, including Regional Directors, research staff, and tax staff, to discuss specific issues relating to academic research relating to investment theory and/or relating to practice development (marketing) and management issues; (f) participation in a regional study group sponsored and hosted by Dimensional Funds Advisors; and (g) other services and benefits.

We are under no obligation to recommend the mutual funds of Dimensional Funds Advisors to our clients. We recommend funds of Dimensional Funds Advisors or other mutual fund companies or other investment products only when we believe they best suit the client's objectives. We do not provide any payment to Dimensional Funds Advisors for the access provided to our clients. Dimensional Funds Advisors does not pay us any direct monetary compensation in order to recommend the funds of Dimensional Funds Advisors.

Item 13: Review of Accounts

Portfolio Management Services

For our clients that hire us to provide Portfolio Management Services, we continuously monitor the underlying securities in our client's accounts and formally review the accounts at least annually. Annual reviews are conducted by Robert M. Heaton or Karla R. Hoppes. More frequent reviews may be triggered by material changes in variables such as the client's individual circumstances, or the market, political or economic environment.

In addition to the monthly statements and confirmations of transactions that our clients receive from their custodian, we will provide quarterly reports to clients consisting of internal rates of return (from inception, year to date, and previous quarter), positions, balances, additions/withdrawals, real and unrealized gains and losses, cost-basis information, and interest/dividend information.

For Portfolio Management clients, financial planning reviews are periodically provided as necessary and as a part of these services. Generally these financial planning reviews happen at least annually.

Employee Benefit Plan Services

For our clients that hire us to provide Employee Benefit Plan Services, we continuously monitor the underlying securities in the retirement plan accounts and formally review the accounts at least annually. Annual reviews are conducted by Robert M. Heaton or Karla R. Hoppes. More frequent reviews may be triggered by material changes in variables such as the market, political or economic environment.

In addition to the monthly statements and confirmations of transactions that our clients receive from their custodian, we will provide quarterly reports to plan sponsors or trustees consisting of internal rates of return (from inception, year to date, and previous quarter), positions, balances, additions/withdrawals, real and unrealized gains and losses, cost-basis information, and interest/dividend information.

Item 14: Client Referrals and Other Compensation

We do not have any arrangements to compensate any individual for client referrals.

As noted in Item 12: Brokerage Practices, we do not participate in the client referral program which may be sponsored by such custodian.

Item 15: Custody

In most cases, clients authorize us to deduct advisor fees directly from the clients' accounts on which we provide investment advisory services. Clients receive statements directly from the broker-dealer or other qualified custodian on at least a quarterly basis. Clients should carefully review these statements.

We also provide quarterly reports showing clients their account performance and holdings. We urge all clients to carefully compare our quarterly reports with those provided by the independent, qualified custodian or broker-dealer that hold the clients' accounts.

Item 16: Investment Discretion

Generally clients using our Portfolio Management Services (see Item 4: Advisory Business) grant us the discretionary authority to make all decisions to buy, sell or hold securities, cash or other investments for their accounts without first consulting with them.

At times, clients may request to retain existing holdings that we would not recommend purchasing or holding. In this situation, we will typically recommend that these assets be liquidated, possibly over a period of several years. Special instructions or limits to managing a client's accounts are written in the client's Investment Policy Schedule.

Item 17: Voting Client Securities

Heaton Adams Financial Services, LC will not accept the authority to vote or advise clients about how to vote proxies for securities held in their accounts. The client's custodian will send all proxy and related shareholder communications to the client.

Item 18: Financial Information

As a registered investment advisor, we are required to provide you with certain financial information or disclosures about our financial condition. We have no financial commitment that impairs our ability to meet contractual and fiduciary commitments, and we have not been the subject of a bankruptcy proceeding. Our financial condition allows a reasonable expectation that we will be able to meet our contractual commitments to our clients. We charge Portfolio Management fees after the fees are earned. (See Item 5: Fees and Compensation for further details.)

Part 2B of Form ADV: *Brochure Supplement Robert M. Heaton*

Item 1: Cover Page

Robert M. (Bob) Heaton, CPA, CFP

Heaton Adams Financial Services, LC
333 West Fourth Street
Waterloo, IA 50701

Phone: (319) 232-1943

Fax: (319) 235-6664

Email: bob@heatonadams.com

This brochure supplement provides information about the qualifications of Robert M. Heaton, CPA, CFP, for providing investment advice to clients of Heaton Adams Financial Services, LC. Please read our full brochure (Part 2A) to understand the business practices of Heaton Adams Financial Services, LC.

This brochure supplement was last updated on March 31, 2011.

Item 2: Educational Background and Business Experience

Robert M. (Bob) Heaton, CPA, CFP

Date of Birth: 10/7/52

Bob graduated from Iowa State University in 1974 with a B.S. in Industrial Administration.

Bob has been the Managing Member of Heaton Adams Financial Services, LC from 07/2001 to present. He has also been President and CPA of Heaton Adams & Co., PC from 06/1986 to present.

Bob is a Certified Public Accountant (CPA). CPAs are licensed and regulated by their state boards of accountancy. While state laws and regulations vary, the education, experience and testing requirements for licensure as a CPA generally include minimum college education (typically 150 credit hours with at least a baccalaureate degree and a concentration in accounting), minimum experience levels (most states require at least one year of experience providing services that involve the use of accounting, attest, compilation, management advisory, financial advisory, tax or consulting skills, all of which must be achieved under the supervision of or verification by a CPA), and successful passage of the Uniform CPA Examination. In order to maintain a CPA license, states generally require the completion of 40 hours of continuing professional education (CPE) each year (or 80 hours over a two year period or 120 hours over a three year period). Additionally, all American Institute of Certified Public Accountants (AICPA) members are required to follow a rigorous *Code of Professional Conduct* which requires that they act with integrity, objectivity, due care, competence, fully disclose any conflicts of interest (and obtain client consent if a conflict exists), maintain client confidentiality, disclose to the client any commission or referral fees, and serve the public interest when providing financial services. The vast majority of state boards of accountancy have adopted the AICPA's *Code of Professional Conduct* within their state accountancy laws or have created their own.

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

The CFP® certification is a voluntary certification; no federal or state law or regulation requires financial planners to hold CFP® certification. It is recognized in the United States and a number of other countries for its (1) high standard of professional education; (2) stringent code of conduct and standards of practice; and (3) ethical requirements that govern professional engagements with clients. Currently, more than 62,000 individuals have obtained CFP® certification in the United States.

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 the following ongoing education and ethics requirements in order to maintain the right to continue to use the CFP® marks:

- Continuing Education – Complete 30 hours of continuing education hours every two years, including two hours on the Code of Ethics and other parts of the Standards of Professional Conduct, to maintain competence and keep up with developments in the financial planning field; and
- Ethics – Renew an agreement to be bound by the Standards of Professional Conduct. The Standards prominently require that CFP® professionals provide financial planning services at a fiduciary standard of care. This means CFP® professionals must provide financial planning services in the best interests of their clients.

CFP® professionals who fail to comply with the above standards and requirements may be subject to CFP Board’s enforcement process, which could result in suspension or permanent revocation of their CFP® certification.

Item 3: Disciplinary Information

Bob has no material disciplinary information to disclose.

Item 4: Other Business Activities

Bob is the Managing Member and the principal owner of Heaton Adams Financial Services, LC. Bob is also President and a Certified Public Accountant for Heaton Adams & Co., PC an Iowa accounting firm. Heaton Adams & Co., PC provides accounting services and tax planning to select clients. Bob receives compensation from both firms.

Heaton Adams Financial Services, LC's advisory clients may also be Heaton Adams & Co., PC accounting clients. However, no Heaton Adams Financial Services, LC's advisory client is obligated to use any Heaton Adams & Co., PC accounting services, and no Heaton Adams & Co., PC accounting client is obligated to use any Heaton Adams Financial Services, LC's investment advisory or financial planning services. Heaton Adams Financial Services, LC is not utilized to solicit clients for Heaton Adams & Co., PC. No referral fees are paid to either of these entities from the other respective entity. All accounting fees charged by Heaton Adams & Co., PC are separate and distinct from all advisory fees charged by Heaton Adams Financial Services, LC.

Bob receives no commissions or any compensation based upon sales of securities or other investment products to our clients.

Item 5: Additional Compensation

Bob receives a regular salary from Heaton Adams Financial Services, LC and Heaton Adams & Co., PC. He receives no additional financial incentives beyond his regular salary and regular bonus for providing advisory services.

Item 6: Supervision

Bob is the Managing Member of Heaton Adams Financial Services, LC and is responsible for the supervision of all Heaton Adams Financial Services, LC Investment Advisor Representatives.

As an Investment Advisor Representative of Heaton Adams Financial Services, LC, Bob is also required to comply with the Heaton Adams Financial Services, LC Policies and Procedures along with the company's Code of Ethics. Compliance is monitored by Karla R. Hoppes, Chief Compliance Officer. Karla's phone number is (319) 232-1943.

Part 2B of Form ADV: *Brochure Supplement Karla R. Hoppes*

Item 1: Cover Page

Karla R. Hoppes

Heaton Adams Financial Services, LC
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Waterloo, IA 50701

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Fax: (319) 235-6664

Email: karla@heatonadams.com

This brochure supplement provides information about the qualifications of Karla R. Hoppes for providing investment advice to clients of Heaton Adams Financial Services, LC. Please read our full brochure (Part 2A) to understand the business practices of Heaton Adams Financial Services, LC.

This brochure supplement was last updated on March 31, 2011.

Item 2: Educational Background and Business Experience

Karla R. Hoppes

Date of Birth: 11/7/71

Karla graduated from Upper Iowa University in 1997 with a B.S. in Accounting.

Karla has been an Investment Advisor Representative from 02/2010 to present and Chief Compliance Officer of Heaton Adams Financial Services, LC from 06/2010 to present.

Prior to joining Heaton Adams Financial Services, LC, Karla was Principal, Vice President, and Chief Compliance Officer of Hogan Capital Management, Inc. from 11/2001 to 12/2009.

Item 3: Disciplinary Information

Karla has no material disciplinary information to disclose.

Item 4: Other Business Activities

Karla is an Investment Advisor Representative and Chief Compliance Officer of Heaton Adams Financial Services, LC. Karla is also employed by Heaton Adams & Co., PC and provides support for accounting services and tax planning. Karla receives compensation from Heaton Adams & Co., PC which is reimbursed by Heaton Adams Financial Services, LC.

Heaton Adams Financial Services, LC's advisory clients may also be Heaton Adams & Co., PC accounting clients. However, no Heaton Adams Financial Services, LC's advisory client is obligated to use any Heaton Adams & Co., PC accounting services, and no Heaton Adams & Co., PC accounting client is obligated to use any Heaton Adams Financial Services, LC's investment advisory or financial planning services. Heaton Adams Financial Services, LC is not utilized to solicit clients for Heaton Adams & Co., PC. No referral fees are paid to either of these entities from the other respective entity. All accounting fees charged by Heaton Adams & Co., PC are separate and distinct from all advisory fees charged by Heaton Adams Financial Services, LC.

Karla receives no commissions or any compensation based upon sales of securities or other investment products to our clients.

Item 5: Additional Compensation

Karla receives a regular salary from Heaton Adams Financial Services, LC and Heaton Adams & Co., PC. She receives no additional financial incentives beyond her regular salary and regular bonus for providing advisory services.

Item 6: Supervision

Robert M. Heaton is the Managing Member of Heaton Adams Financial Services, LC, and is responsible for the supervision of all Heaton Adams Financial Services, LC Investment Advisor Representatives.

As an Investment Advisor Representative of Heaton Adams Financial Services, LC Karla is required to comply with the Heaton Adams Financial Services, LC Policies and Procedures along with the company's Code of Ethics. Karla's compliance is monitored by Robert M. Heaton, Managing Member. Bob's phone number is (319) 232-1943.