

# Allegiance Financial Advisors, Inc.

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March 10, 2011

Allegiance Financial Advisors, Inc.'s Form ADV Part 2 or Brochure, as required by the Investment Advisers Act of 1940, is a very important document between you and Allegiance Financial Advisors, Inc. This Brochure provides information about our qualifications and business practices.

***This brochure provides information about the qualifications and business practices of Allegiance Financial Advisors, Inc. If you have any questions about the contents of this brochure, please contact us at 412-369-7755 or [carmen@allegiance-financial.com](mailto:carmen@allegiance-financial.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any State Securities Authority.***

***Additional information about Allegiance Financial Advisors, Inc. is available at the SEC's website [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) (click on the link, select "investment adviser firm" and type in our firm name). Results will provide you both Part 1 and 2 of our Form ADV.***

Allegiance Financial Advisors, Inc. is a registered investment adviser with the SEC. Our registration as an investment adviser does not imply any level of skill or training. The oral and written communications we provide to you, including this Brochure, is information you use to evaluate us (and other advisers) which are factors in your decision to hire us or to continue to maintain a mutually beneficial relationship.

## Item 2 – Material Changes

### 1. Initial Filing on March 10, 2011:

- a. This is our “initial” filing of what we regard as “New Part 2” of our Form ADV. As a result, this Document, dated March 10, 2011 is brand new. This document was developed in response to new requirements adopted and imposed by the SEC under the Investment Advisers Act of 1940. As a result, this Disclosure Brochure is substantially different from previous versions and includes disclosures not specifically required by last year’s Form ADV Part II.
  - b. As a result, this Brochure should be considered “materially new” although you will recognize most of the disclosures as similar or identical to what you have read in the past. New Disclosures in this document include those items previously not requested, including:
    - i. The elimination of Part II, Pages 1-6 (or the old check the box pages).
2. In future filings, this section of the Brochure will address only those “material changes” that have been incorporated since our last delivery or posting of this document on the SEC’s public disclosure website (IAPD) [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).
3. We may, at any time, update this Brochure and either send you a copy or offer to send you a copy (either by electronic means (email) or in hard copy form).
4. If you would like another copy of this Brochure, please download it from the SEC’s Website as indicated above or you may contact our Chief Compliance Officer, Carmen Petote at 412-369-7755 or [carmen@allegiance-financial.com](mailto:carmen@allegiance-financial.com).

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## **Item 4 – Advisory Business**

Allegiance Financial Advisors, Inc. (“AFA”) was formed in 1994 and is wholly owned by Carmen Petote, President and Chief Compliance Officer. As of December 31, 2010, AFA had non-discretionary assets under management of \$37,332,609. AFA provides the following services to the firm’s individual and institutional clients:

### **Portfolio Management Services**

AFA provides continuous advice to each client regarding the investment of client funds based on the individual needs of the client. Through personal discussions in which goals and objectives based on a client's particular circumstances are established, AFA develops, creates and manages a portfolio.

### **Cash Management Services**

AFA provides Cash Management Services to corporations and other business entities. The investment objective of cash management service is to achieve a rate of return higher than money market rates.

### **Financial Planning Services**

AFA also provides advice in the form of a Financial Plan. Clients purchasing this service will receive a written Financial Plan, providing the client with a detailed Financial Plan designed to achieve their stated financial goals and objectives. In general, the Financial Plan may address any or all of the following areas of concern:

- **PERSONAL:** Family records, budgeting, estate information and financial goals.
- **DEATH & DISABILITY:** Cash needs at death, income needs of surviving dependents and disability income analysis.
- **RETIREMENT:** Analysis of current strategies and investment plans to help the client achieve his or her retirement goals.
- **INVESTMENTS:** Analysis of investment alternatives and their effect on a client's portfolio.

AFA gathers all required information through in-depth personal interviews. Information gathered includes a client's current financial status, future goals and attitudes towards risk. Related documents supplied by the client are carefully reviewed, including a questionnaire completed by the client, and a written Financial Plan is prepared.

Should a client choose to implement the recommendations in the Financial Plan, AFA suggests the client work closely with his/her attorney, accountant, insurance agent, and/or stockbroker. Implementation of Financial Plan recommendations is entirely at the client’s discretion.

Typically, the Financial Plan will be presented to the client within 90 days of the contract date, provided that all information needed to prepare the Financial Plan has been promptly provided by the client.

### **Consulting Services**

Clients can also receive investment advice on a more limited basis. This may include advice on only an isolated area of concern such as insurance coverage, evaluation of third party portfolio management services, retirement planning, or any other specific topic. AFA also provides specific consultation and administrative services regarding the investment and financial concerns of the client. Additionally, AFA provides advice on non-securities matters. Generally, this is in connection with the rendering of insurance and/or annuity advice.

### **Pension Consulting Services**

While the primary clients for these services will be pension, profit sharing and 401(k) plans, AFA will also offer these services, where appropriate, to individuals, trusts, estates and charitable organizations. Pension Consulting Services are comprised of four distinct services. Clients may choose to utilize any or all of these services.

1. Preparation of Investment Recommendations:  
AFA meets with each client (in person or over the telephone) to determine the client's investment needs and goals. Based on those discussions, AFA will then prepare written investment recommendations stating those needs and goals, establishing criteria for selecting funding vehicles to meet those needs and goals, and stating the procedures and timing intervals for the monitoring of investment performance.
2. Selection of Investment Vehicles:  
AFA will review various investment vehicles and recommend investment vehicles that are appropriate. The investment vehicles to be offered will be determined by the client, based on the investment recommendations.
3. Monitoring of Investment Performance:  
Client investments will be monitored on an annual basis, based on the procedures and timing intervals delineated in the investment recommendations. AFA will supervise the client's portfolio and make recommendations to the client as market factors and the client's needs dictate, and except for clients who have engaged AFA to provide portfolio management services, AFA will not be involved in the purchase and sale of investments.

4. Employee Communications:

For pension, profit sharing and 401(k) plan clients wherein there are individual accounts with participants exercising control over assets in their own account ("self-directed plans"), AFA also provides annual educational support and investment workshops designed for the Plan participants. The nature of the topics to be covered will be determined by AFA and the client under the guidelines established in ERISA Section 404(c). The educational support and investment workshops will NOT provide Plan participants with individualized, tailored investment advice or individualized, tailored asset allocation recommendations. However, following the workshops, AFA may also meet individually with participants and provide general investment recommendations, and may solicit such attendees as prospective clients.

AFA recommends that client assets be held in brokerage accounts held at Charles Schwab and/or Allegheny Investments Ltd.

## **Item 5 – Fees and Compensation**

### **Portfolio Management Services**

The annual fee for Portfolio Management Services will be charged as a percentage of assets under management, according to the schedule below:

<b>Assets Under Management</b>	<b>Annual Fee</b>
Less than \$100,000	1.50%
\$100,000 to \$250,000	1.25%
\$250,000 to \$1,000,000	1.00%
\$1,000,000 to \$5,000,000	0.75%
Over \$5,000,000	0.50%

### **Cash Management Services**

The annual fee for Cash Management Services will be charged as a percentage of assets under management. The annual percentage rate is 0.50%.

For both Portfolio Management and Cash Management Services, the advisory fee will be charged in advance at the beginning of each calendar quarter based upon the value of the assets held in the client's account as of the start of each quarter. The value of the assets will be the market value reported by the custodian maintaining the client's assets, and if there is no reported value for an asset, then the value of such asset will be the fair value as determined by AFA. AFA may in its discretion waive the initial fee for an account opened after the commencement of the quarter. Fees will automatically be deducted from each client's account by the custodian unless other billing arrangements have been made in advance between the client and AFA.

In addition to the advisory fee, clients will pay transaction fees or commissions to the custodian of the assets. These fees are in addition to the advisory fees paid by the client to AFA. AFA does not share in any of these transaction fees or commissions. Additional information regarding these fees and commissions is available from AFA. AFA does not receive 12b-1 fees for recommending the purchase of shares of mutual funds for advisory clients. If AFA receives any compensation in addition to its advisory fees, other than 12b-1 fees, the compensation will be fully disclosed at the time of implementation or the time of receipt. Such compensation will be subtracted from the management fee due, or the value of the assets placed in the product will be subtracted from the value of the portfolio prior to calculating the advisory fee.

### **Financial Planning, Consulting and Pension Consulting Services**

The fee for Financial Planning, Consulting and Pension Consulting Services will be based on an hourly rate of \$150. An estimate of the amount of time that will be required to perform the service may be provided at the start of the client relationship. Of the estimated total fee, the client may be required to pay 50% before work begins, with the balance due (based on the actual time spent) upon completion of the services.

**Advisory Fees in General:** Clients should note that similar advisory services may be available from other registered investment advisers for similar or lower fees.

**Negotiability of Fees:** In certain circumstances, fees may be negotiable. AFA may charge different clients receiving the same services different fees. The above fee schedules are the firm's basic fee schedules generally charged to clients absent negotiable circumstances. Fees may be negotiable based on the amount of assets under management, the scope of the client relationship, or unique client circumstances. Clients should also note that AFA has pre-existing client relationships with historical fee arrangements which will not be offered to prospective clients.

**Termination of the Advisory Relationship:** A client agreement for Portfolio Management Services may be canceled at any time, by either party, for any reason upon the giving of advance written notice. AFA will only charge fees based on a full month's services. Therefore, if a client terminates an account with AFA during a particular month, that client will not be billed for services during that month. A client agreement for Financial Planning, Pension Consulting, or Consulting Services may be terminated by giving written notice to AFA. In the event of termination of such services before the presentation of the written plan, all earned and unpaid fees will be due and payable, and all unearned and prepaid fees will be refundable, in each case based on the amount of work actually performed prior to the receipt of notice. The client has the right to terminate an agreement without penalty within five business days after entering into the agreement. In the event the termination of a client agreement involves a liquidation of securities or a withdrawal of funds from an account, any fees, commissions, or other expenses associated with the withdrawal or liquidation may be charged to the client.

**Mutual Fund Fees and Expenses:** All fees paid to AFA for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds, ETFs, or other investment vehicles to their shareholders. These fees and expenses are described in each fund's prospectus. These fees will generally include a management fee, other fund expenses, and a possible distribution fee. Certain funds also impose sales charges. A client could invest in a mutual fund directly, without the services of AFA. In that case, the client would not receive the services provided by AFA 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. Accordingly, the client should review both the fees charged by the funds and the fees charged by AFA to fully understand the total amount of fees to be paid by them and to thereby evaluate the advisory services being provided.

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

AFA does not charge performance based fees.

## **Item 7 – Types of Clients**

AFA does not require any specific minimum initial investment. AFA currently provides investment management services to the following types of clients:

- Individuals (including high net worth individuals);
- Pension and Profit Sharing Plans;
- Trusts, Estates or Charitable Organizations; and
- Corporations.

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

### **Analysis:**

Some of the tools utilized by Carmen Petote in creating investment strategies for the firm's clients include but are not limited to:

- **Allegheny Investments Ltd. Research and Recommended List:** The Recommended List and firm research are available to Mr. Petote due to his position as a registered representative of Allegheny.
- **Litman/Gregory-AdvisorIntelligence:** Litman/Gregory is a registered investment advisor that created AdvisorIntelligence in 2001 to share the independent, institutional-caliber research, portfolios, client communications, and practice management expertise that they use with their own institutional and high-net-worth investment management clients.

- **Steele Systems, Inc./Morningstar:** Steele Expert mutual fund software is an intuitive, easy-to-use program for selection, tracking, analysis, and presentation. It is based on original data by **Morningstar, Inc.** on 24,000 mutual funds/ETFs, 100,000 variable annuities/variable life, market indexes & investment objective averages, with short-term & long-term performance, risk, fees, and portfolio information on each.

### **Investment Strategies:**

AFA utilizes the following investment strategies when providing Portfolio Management and Cash Management Services to the firm's clients.

#### **Portfolio Management Services:**

AFA will create a recommended portfolio of securities based on factors such as the risk tolerance of the client, liquidity needs, income needs, the adequacy of portfolio diversification among sectors and industries, investment objectives and tax considerations. Typically, the portfolio will be composed of mutual funds only.

The mutual funds that are recommended by AFA will be selected on the basis of any or all of the following criteria:

- the fund's performance history;
- the industry sector in which the fund invests;
- the track record of the fund's manager;
- the fund's investment objectives;
- the fund's management style and philosophy;
- the fund's management fees; and
- the fund's overall expenses.

Portfolio weighting between funds will be determined by AFA based on each client's individual needs and circumstances. Clients will have the opportunity to place reasonable restrictions on the types of investments that are made on their behalf. Clients will retain individual ownership of all securities. Should the client's individual situation change, the client should notify AFA, who may recommend a reallocation of the client's portfolio if different investment objectives or goals would be appropriate to the client's new situation.

#### **Cash Management Services:**

AFA will create a portfolio of money market mutual funds and other appropriate mutual funds and manage the portfolio based on factors including the liquidity needs of the client.

Please refer to Item 4 for more information regarding AFA's methods for providing Financial Planning, Consulting and Pension Consulting Services.

**Risks:**

All investments in securities include a risk of loss of your principal (invested amount) and any profits that have not been realized. Stock markets and bond markets fluctuate substantially over time. In addition, as recent global and domestic economic events have indicated, the performance of any investment is not guaranteed. AFA will manage client assets to the best of the firm's ability; however, AFA cannot guarantee any level of performance or that clients will not experience a loss of account assets.

**Item 9 – Disciplinary Information**

AFA does not have any legal, financial or other “disciplinary” item to report. AFA is required to disclose any disciplinary event that would be material to clients when opening an account or promptly upon discovery of such an event/item. This statement applies to the firm, and every employee.

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

Carmen M. Petote is a registered representative of Allegheny Investments, Ltd., a registered broker dealer and FINRA member. The brokerage services provided by Mr. Petote and Allegheny are separate from the advisory services provided by AFA. In his individual capacity as a registered representative, Mr. Petote has brokerage clients who maintain commission based accounts at Allegheny and for whom he effects securities transactions. In addition, Mr. Petote may recommend the brokerage services of Allegheny to advisory clients of AFA, and may affect transactions in such brokerage accounts. Mr. Petote will receive separate and customary compensation for acting as a registered representative and effecting brokerage transactions.

Mr. Petote is also a licensed insurance agent, and writes life, health, and disability insurance policies, and sells annuities, on behalf of Allegheny Insurance Brokerage Co. and other insurance agencies. The insurance services provided by Mr. Petote on behalf of any insurance agencies are separate from the advisory services provided by AFA. In his separate capacity as an insurance agent, Mr. Petote has insurance clients for whom he writes insurance policies or to whom he sells annuities, and earns a commission. In addition, Mr. Petote may recommend to clients of AFA that they obtain or modify insurance coverage, purchase annuities, and he may purchase such insurance or insurance related products for such clients. Mr. Petote will receive separate and customary compensation for acting as an insurance agent and purchasing insurance and insurance related products for clients of AFA. Mr. Petote may spend as much as 10% of his time on non-advisory activities.

No advisory client is under any obligation to engage Mr. Petote when considering implementation of recommendations for brokerage or insurance transactions. The implementation of any or all recommendations is solely at the discretion of the client.

As these situations may present a conflict of interest, AFA has established the following policies and procedures for ensuring its fiduciary responsibilities:

- All clients are fully informed that Mr. Petote may receive separate compensation when effecting transactions as a representative of Allegheny Investments Ltd or purchasing insurance or insurance related products. AFA emphasizes the unrestricted right of the client to decline to implement any advice rendered.
- AFA emphasizes the unrestricted right of the client to select any broker or dealer and/or insurance company he or she wishes.

## **Item 11 – Code of Ethics**

AFA has adopted a Code of Ethics expressing the firm's commitment to ethical conduct. AFA's Code of Ethics describes the firm's fiduciary duties and responsibilities to clients, and sets forth AFA's practice of supervising the personal securities transactions of its employees who have access to information concerning securities holdings, recommendations or transactions within client accounts. Individuals associated with AFA may buy or sell securities for their personal accounts identical to or different than those recommended to clients.

It is the expressed policy of AFA that no person employed by AFA shall prefer his or her own interest to that of an advisory client or make personal investment decisions based on the investment decisions of advisory clients. It should be noted that Carmen Petote may benefit from recommending certain products to clients that are available only through Allegheny Investments Ltd. Please refer to Item 10 above for more information.

To supervise compliance with its Code of Ethics, AFA requires that all employees provide copies of their personal securities holdings and transaction reports to the firm's Chief Compliance Officer. In addition, AFA requires such employees also to receive approval from the Chief Compliance Officer prior to investing in any IPO's or private placements (limited offerings). Any individual not in observance of the above may be subject to discipline.

AFA requires all employees to sign an acknowledgement of receipt of the Code of Ethics at the time of hire, as amended and annually thereafter. Clients may request a complete copy of AFA's Code of Ethics by contacting the Chief Compliance Officer, Carmen Petote, at the address, telephone number and/or email on the cover page. AFA does not engage in firm proprietary trading.

## **Item 12 – Brokerage Practices**

AFA does not request or accept the discretionary authority to determine the broker dealer to be used for client accounts. However, AFA generally does not accept accounts of clients who do not agree to direct the use of Charles Schwab or Allegheny Investments Ltd. for securities transactions. AFA also utilizes Charles Schwab for maintaining custody of client funds and/or securities.

AFA is independently owned and operated and not affiliated with Charles Schwab or Allegheny Investments Ltd. AFA does not receive any formal soft dollar benefits from Charles Schwab or Allegheny Investments Ltd.; however, the firm may have access to certain products and services (as described below) as a result of the firm's recommendations of their brokerage and/or custodial services.

### **Charles Schwab**

AFA participates in the **Schwab Institutional Program** offered to independent investment advisers by Charles Schwab, a registered broker dealer and FINRA member. Clients in need of brokerage and custodial services will have Schwab recommended to them. As part of the Program, AFA receives benefits that it would not receive if it did not offer investment advice.

AFA has reviewed the services of Charles Schwab and recommends their services based on a number of factors. These factors include the professional services offered, commission rates, and the custodial platform provided to clients. Based on its business model, AFA will not seek to exercise discretion to negotiate commission rates among various brokers on behalf of clients. AFA will, however, periodically attempt to negotiate lower commission rates for its clients with Charles Schwab.

While there is no direct linkage between the investment advice given and participation in the Program, economic benefits are received which would not be received if AFA did not give investment advice to clients. These benefits include products and services that benefit AFA but may not benefit its clients' accounts. Some of these other products and services assist AFA in managing and administering clients' accounts. These include software and other technology that provide access to client account data (such as trade confirmations and account statements), facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts), provide research, pricing information and other market data, facilitate payment of AFA's fees from its clients' accounts, and assist with back-office functions, recordkeeping and client reporting. Many of these services generally may be used to service all or a substantial number of AFA accounts, including accounts not maintained at Charles Schwab.

Charles Schwab also makes available to AFA other services intended to help AFA manage and further develop its business enterprise. These services may include consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance, and marketing. In addition, Charles Schwab may make available, arrange and/or pay for these types of services rendered to AFA by independent third parties. Charles Schwab may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to AFA.

While as a fiduciary, AFA endeavors to act in its clients' best interests, AFA's requirement that clients maintain their assets in accounts at Charles Schwab may be based in part on the benefit to AFA of the availability of some of the foregoing products and services and not solely on the nature, cost or quality of custody and brokerage services provided by Charles Schwab, which may create a potential conflict of interest.

**Allegheny Investments Ltd.**

Mr. Petote utilizes the brokerage services of Allegheny Investments Ltd on a limited basis with clients of AFA. Certain products that are recommended by Mr. Petote may not be available through Charles Schwab; therefore, Mr. Petote recommends the purchase of these assets through Allegheny Investments Ltd. Please refer to Item 10 above for more information regarding Mr. Petote's relationship with Allegheny Investments Ltd.

AFA does not accept any client directed brokerage arrangements and does not engage in Principal Trading or Agency Cross Transactions.

**Item 13 – Review of Accounts**

AFA will periodically monitor each client's portfolio and, when appropriate, suggest a reallocation of the portfolio based on changing economic conditions or changes in the client's individual circumstances. Should the client's individual situation change, the client should notify AFA, who may recommend a reallocation of the client's portfolio if different investment objectives or goals would be appropriate to the client's new situation.

**Reviews and Reviewers:**

AFA will monitor managed accounts on a continuous basis and will offer to meet with clients on a quarterly basis to review their account. Reviews are performed by Carmen Petote.

Managed accounts are reviewed for consistency with the personal investment guidelines of the client. More frequent reviews may be triggered by changes in a client's individual needs and circumstances, by events related to the issuer of a security or other investment product held in a client's account, or by market, economic or political events. AFA will, if a client requests, meet with a client more frequently in response to changes in their personal and financial circumstances, such as births, deaths, or changes in income.

AFA will review Financial Plans at the request of the client or as agreed upon at the inception of the advisory relationship. Typically, reviews result from changes in their personal and financial circumstances, such as births, deaths, or changes in income. Reviews are performed by Carmen Petote.

**Reports:**

For managed accounts, clients will receive from the custodian holding their account assets regular monthly or quarterly account statements, depending on the activity in the account, as well as confirmations of transactions. In addition, AFA will provide a quarterly report with performance information.

Financial Planning clients will receive a written Financial Plan. Additional reports will be provided as agreed upon at the inception of the advisory relationship.

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

AFA does not participate in any client solicitation or referral arrangements; however, AFA does have incentive to encourage clients to utilize Charles Schwab and/or Allegheny Investments Ltd. for their brokerage/custodial services. Please refer to Item 12 above for more information about AFA's brokerage relationship with Charles Schwab and/or Allegheny Investments Ltd.

**Item 15 – Custody**

AFA does not maintain custody of client funds and/or securities except to the extent that the firm directly debits fees for client accounts for services rendered.

In addition to the reports provided by AFA to all clients (as described in Item 13 above), clients will receive account statements directly from their qualified custodian at least quarterly. We urge you to compare the account statements received from the qualified custodian and the account statements provided by AFA.

**Item 16 – Investment Discretion**

AFA provides recommendations to the firm's clients regarding their portfolio holdings and investments; however, the firm does not have investment discretion over any client account or assets. Therefore, AFA does not have the authority to determine, without obtaining specific client consent, the securities to be bought and sold in client accounts and the amount of such securities to be bought and/or sold.

**Item 17 – Voting *Client* Securities (i.e., Proxy Voting)**

As a matter of firm policy, AFA does not vote proxies on behalf of the firm's clients. Clients are responsible for voting their own proxies. However, AFA may provide clients with consulting assistance regarding proxy issues.

## **Item 18 – Financial Information**

AFA does not require prepayment of advisory fees; therefore the firm is not required to provide an audited financial statement.

## **Item 19 – Requirements for State-Registered Advisers**

Not Applicable.