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**March 28, 2011**

**FORM ADV PART 2A  
BROCHURE**

**This brochure provides information about the qualifications and business practices of Lighthouse Financial Advisors, Inc. If you have any questions about the contents of this brochure, please contact us at (301) 865-9740. 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.**

**Additional information about Lighthouse Financial Advisors, Inc. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The searchable IARD/CRD number for Lighthouse Financial Advisors, Inc. is 118060.**

**Lighthouse Financial Advisors, Inc. is a registered investment adviser. Registration with the United States Securities and Exchange Commission or any state securities authority does not imply a certain level of skill or training.**

### ***Summary of Material Changes***

This brochure is a new document prepared according to new regulatory requirements. Accordingly, this document is materially different in structure and requires certain new information that our previous brochure did not require. Beyond the change in format, and the new information, we have revised our advisory fees and minimum requirements for portfolio management services. Existing clients may have contracted for services under a different fee schedule and terms for management.

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## ***Advisory Business***

### **Description of Services and Fees**

Lighthouse Financial Advisors, Inc. is a registered investment adviser based in New Market, Maryland. We are organized as a sub Chapter-S corporation under the laws of the State of Maryland. We have been providing investment advisory services since 2000. Thomas Michael Kozlowski, President and Andrew Paul Wilson, Vice President are our principal owners. Edward S. Kozlowski is our Chief Compliance Officer.

The following paragraphs describe our services and fees. Please refer to the description of each investment advisory service listed below for information on how we tailor our advisory services to your individual needs. As used in this brochure, the words "we," "our" and "us" refer to Lighthouse Financial Advisors, Inc and the words "you," "your" and "client" refer to you as either a client or prospective client of our firm. In addition, you may see the term Associated Person throughout this brochure. As used in this brochure, our Associated Persons are our firm's officers, employees, and all individuals providing investment advice on behalf of our firm.

We offer personalized investment advisory services to individuals, pension and profit sharing plans, trusts, estates, charitable organizations, corporations, and other business entities. We engage in broad-based financial planning, cash flow planning, estate planning, insurance planning, divorce planning, college planning, and compensation and benefits planning, among others. The combination of study, industry experience, and comprehensive research allows our firm to provide quality advisory services to our clients. Currently, we offer the following investment advisory services, which are personalized to each individual client.

### **Financial Planning and Consulting Services**

We offer broad-based, consultative financial planning services. Financial planning will typically involve providing a variety of advisory services to clients regarding the management of their financial resources based upon an analysis of their individual needs. If you retain our firm for financial planning services, we will meet with you to gather information about your financial circumstances and objectives. Once we specify those long-term objectives (both financial and non-financial), we will develop shorter-term, targeted objectives. Once we review and analyze the information you provide to our firm, we will deliver a written plan to you, designed to help you achieve your stated financial goals and objectives.

You may only require advice on a single aspect of the management of your financial resources therefore we offer financial plans in a defined format and/or general consulting services that address only those specific areas of interest or concern, depending on your unique circumstances.

Financial planning advice may be rendered in the areas of business planning, retirement planning, financial planning, cash flow planning, estate planning, insurance planning, divorce planning, college planning, and compensation and benefits planning, among others. We will not provide legal or accounting advice. It is recommended that you consult an attorney, accountant, or tax adviser for legal or tax advice.

Financial plans are based on your financial situation at the time we present the plan to you, and on the financial information, you provide to our firm. You must promptly notify our firm if your financial situation, goals, objectives, or needs change.

You are under no obligation to act on our financial planning recommendations. Should you choose to act on any of our recommendations, you are not obligated to implement the financial plan through any of our other investment advisory services. Moreover, you may act on our recommendations by placing securities transactions with any brokerage firm.

We utilize the following financial planning/consulting fee schedule:

- **Fixed Fees:** Fixed fees for financial planning generally range between \$500.00 and \$5,000.00 depending on the scope and complexity of the contracted services.
- **Hourly Fees:** Typically, we charge an hourly fee of \$125.00 to \$325.00 depending on the scope and

complexity of the contracted services.

When the scope of the financial planning services has been agreed upon, a determination will be made as to applicable fee, and an estimate will be provided to you. The final fee, subject to negotiation, is directly dependent upon the facts and circumstances of your financial situation and the complexity of the financial plan or services requested.

For financial planning and hourly consulting services, a good faith deposit may be required while the balance will be invoiced and payable upon completion of the services and/or presentation of the written plan, if applicable. Under no circumstance will the Firm require payment more than six months in advance in excess of \$1,200.

However, at our discretion, other fees and fee payment arrangements may be negotiated. If you choose to implement the financial plan through us, the financial planning fees may be offset by portfolio management fees and there will be no additional charge for normal planning services over and above the investment management fee. Extraordinary research or analysis may involve additional costs, which will be negotiated on an individual basis prior to beginning such work. The fees and terms of the financial planning services will be clearly set forth in the Client agreement executed between you and our firm. *In limited circumstances*, the time/cost could potentially exceed the initial estimate. In such cases, we will notify you and may request that you pay an additional fee.

You may terminate the financial planning agreement by providing written notice to our firm. You will incur a pro rata charge for services rendered prior to the termination of the agreement.

#### Asset Management Services

We offer an Asset Management Program ("Compass") whereby we manage your account for a single fee that includes both management services and the transaction/commission costs. Compass is designed to assist our clients who include, individuals, trusts, estates, charitable organizations, and corporations, to clarify their investment needs and to obtain professional asset management for a convenient single "wrap fee."

We offer discretionary and non-discretionary portfolio management services. Our investment advice is tailored to meet our clients' needs and investment objectives Subject to any written guidelines that you may provide; we will be granted discretions and authority to manage your account. . Discretionary authorization will allow our firm to determine the specific securities, and the amount of securities, to be purchased or sold for your account without your approval prior to each transaction. Discretionary authority is typically granted by the investment advisory agreement you sign with our firm, a power of attorney, or trading authorization forms. You may limit our discretionary authority (for example, limiting the types of securities that can be purchased for your account) by providing our firm with your restrictions and guidelines in writing. If you enter into non-discretionary arrangements with our firm, we must obtain your approval prior to executing any transactions on behalf of your account.

The account is managed to diversify your investments and may include, but is not limited to, stocks, bonds, options, mutual funds, and money market instruments. Investments and allocations are determined and based upon your predefined objectives, risk tolerance, time horizon, financial horizon, financial information, and other various suitability factors that are determined. Accounts are managed on an individualized basis. Further restrictions and guidelines imposed you may affect the composition and performance of your portfolio. For these reasons, performance of the portfolio may not be identical with that if an average client of our firm. On an ongoing basis, we review your financial circumstances and investment objectives and adjust your portfolio as may be necessary to achieve the desired results.

The Fee charged to the account is negotiable and is set forth in the agreement for services (Agreement). Upon entering into the Agreement, you will open a brokerage account with an independent and unaffiliated brokerage firm, such as Charles Schwab Institutional Services, a division of Charles Schwab and Co., Inc. member FINRA/SIPC ("Schwab"), among others. The brokerage firm provides you with securities custody and execution services. On an annualized basis, our fees for portfolio management services, subject to negotiation, are as follows:

<b>Portfolio Size</b>	<b>Annualized Fee</b>
\$1 to \$500,000	1.25%
\$500,001 to \$1,000,000	0.75%
\$1,000,001 to \$3,000,000	0.50%
\$3,000,001 to \$5,000,000	0.35%
\$5,000,001 and above	0.25%

In certain circumstances and at our sole discretion, a flat fee may be negotiated for portfolio management services. We generally require a minimum of \$500,000 per household to open and maintain a management account. Accounts may be subject to a \$2,500 minimum annual fee.

Our annual portfolio management fee is billed and payable quarterly in advance based on the value of your account on the last day of the previous quarter. If the portfolio management agreement is executed at any time other than the first day of a calendar quarter, our fees will apply on a pro rata basis, which means that the advisory fee is payable in proportion to the number of days in the quarter for which you are a client. Our advisory fee is negotiable, depending on individual client circumstances. A portion of the fee is paid to Schwab for commission and/or transactions costs.

At our discretion, we may combine the account values of family members living in the same household to determine the applicable advisory fee. For example, we may combine account values for you and your minor children, joint accounts with your spouse, and other types of related accounts. Combining account values may increase the asset total, which may result in your paying a reduced advisory fee based on the available breakpoints in our fee schedule stated above.

We will send you an invoice for the payment of our advisory fee, or we will deduct our fee directly from your account through the qualified custodian holding your funds and securities. We will deduct our advisory fee only when you have given our firm written authorization permitting the fees to be paid directly from your account. Further, the qualified custodian will deliver an account statement to you at least quarterly. These account statements will show all disbursements from your account. You should review all statements for accuracy.

You may terminate the portfolio management agreement upon 30-days' written notice to our firm. You will incur a pro rata charge for services rendered prior to the termination of the portfolio management agreement, which means you will incur advisory fees only in proportion to the number of days in the quarter for which you are a client. If you have pre-paid advisory fees that we have not yet earned, you will receive a prorated refund of those fees.

We encourage you to review the statements you receive from the qualified custodian. If you have questions about your statements, or if you did not receive a statement from the qualified custodian, please call our office number located on the cover page of this brochure.

### **Types of Investments**

We primarily offer advice on mutual funds; however, we may also offer advice on equity securities, warrants, corporate debt securities, commercial paper, certificates of deposit, municipal securities, US Government securities, options contracts on securities, and interests in partnerships investing in real estate and oil and gas.

Additionally, we may advise you on any type of investment that we deem appropriate based on your stated goals and objectives. We may also provide advice on any type of investment held in your portfolio at the inception of our advisory relationship.

You may request that we refrain from investing in particular securities or certain types of securities. You must provide these restrictions to our firm in writing.

In general, we manage wrap fee accounts on a discretionary basis based on a long-term investment strategy. If

you participate in our wrap fee program, we will provide you with a separate Wrap Fee Program Brochure explaining the program and costs associated with the program.

### **Assets Under Management**

As of December 31, 2010, we manage \$61,921,405 in client assets on a discretionary basis, and \$962,118 in client assets on a non-discretionary basis.

We also provide non-advice advice to pension plans in excess of \$113,193,476 for which we are not responsible for implementing the investment advice provided.

## ***Fees and Compensation***

Please refer to the "Advisory Business" section in this brochure for information on our advisory fees, fee deduction arrangements, and refund policy according to each service we offer.

### **Additional Fees and Expenses**

As part of our investment advisory services to you, we may invest, or recommend that you invest, in mutual funds and exchange traded funds. The fees that you pay to our firm for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds or exchange traded funds (described in each fund's prospectus) to their shareholders. These fees will generally include a management fee and other fund expenses. You may also incur transaction charges and/or brokerage fees when purchasing or selling securities. These charges and fees are typically imposed by the broker-dealer or custodian through whom your account transactions are executed. We do not share in any portion of the brokerage fees/transaction charges imposed by the broker-dealer or custodian. To fully understand the total cost you will incur, you should review all the fees charged by mutual funds, exchange traded funds, our firm, and others. For information on our brokerage practices, please refer to the "Brokerage Practices" section of this brochure.

### **Compensation for the Sale of Securities or Other Investment Products**

Certain Associated Persons providing investment advice on behalf of our firm are registered representatives with SII Investments, Inc., ("SII"), a securities broker-dealer, and a member of the Financial Industry Regulatory Authority and the Securities Investor Protection Corporation. In their capacity as registered representatives, these persons will receive commission-based compensation in connection with the purchase and sale of securities, including 12b-1 fees for the sale of investment company products. Compensation earned by these persons in their capacities as registered representatives is separate and in addition to our advisory fees. This practice may present a conflict of interest because persons providing investment advice on behalf of our firm who are registered representatives have an incentive to effect securities transactions for the purpose of generating commissions rather than solely based on your needs. [If Adviser primarily recommends mutual funds, disclose whether Adviser recommends "no-load" funds.] However, you are under no obligation, contractually or otherwise, to purchase securities products through any person affiliated with our firm.

We may recommend that you purchase variable annuities to be included in your investment portfolio(s). Persons providing investment advice on behalf of our firm may earn commissions on the sale of the variable annuities in his or her capacity as a registered representative of SII. If these persons earn commission on the sale of variable annuities recommended to you, we will not include the annuity accounts in the total value used for our advisory billing/fee computation. We will include the value of the annuity for breakpoint purposes that may reduce your fees. Annuities will be purchased for your account only after you receive a prospectus disclosing the terms of the annuity. You are under no obligation, contractually or otherwise, to purchase variable annuities through any person affiliated with our firm.

Certain Associated Persons providing investment advice on behalf of our firm may be licensed as independent insurance agents. These persons will earn commission-based compensation for selling insurance products,

including insurance products they sell to you. Insurance commissions earned by these persons are separate and in addition to our advisory fees. This practice may present a conflict of interest because persons providing investment advice on behalf of our firm who are insurance agents have an incentive to recommend insurance products to you for the purpose of generating commissions rather than solely based on your needs. However, you are under no obligation, contractually or otherwise, to purchase insurance products through any person affiliated with our firm.

At our discretion, we may offset our advisory fees to the extent our Associated Persons earn commissions in their separate capacities as registered representatives and/or insurance agents.

### ***Performance-Based Fees and Side-By-Side Management***

We do not accept performance-based fees or participate in side-by-side management. Side-by-side management refers to the practice of managing accounts that are charged performance-based fees while at the same time managing accounts that are not charged performance-based fees. Performance-based fees are fees that are based on a share of capital gains or capital appreciation of a client's account. Our fees are calculated as described in the *Advisory Business* section above, and are not charged based on a share of capital gains upon, or capital appreciation of, the funds in your advisory account.

### ***Types of Clients***

We offer investment advisory services to individuals, pension and profit sharing plans, trusts, estates, charitable organizations, corporations, and other business entities,.

For portfolio management services, we generally require a minimum account size of \$500,000 per household and/or a minimum annual fee of \$2,500.

### ***Methods of Analysis, Investment Strategies and Risk of Loss***

#### **Our Methods of Analysis and Investment Strategies**

We may use one or more of the following methods of analysis or investment strategies when providing investment advice to you :

- Fundamental Analysis – involves analyzing individual companies and their industry groups, such as a company's financial statements, details regarding the company's product line, the experience and expertise of the company's management, and the outlook for the company's industry. The resulting data is used to measure the true value of the company's stock compared to the current market value.
- Technical Analysis – involves studying past price patterns and trends in the financial markets to predict the direction of both the overall market and specific stocks.
- Long Term Purchases – securities purchased with the expectation that the value of those securities will grow over a relatively long period of time, generally greater than one year.
- Short Term Purchases – securities purchased with the expectation that they will be sold within a



relatively short period of time, generally less than one year, to take advantage of the securities' short-term price fluctuations.

Our investment strategies and advice may vary depending upon each client's specific financial situation. As such, we determine investments and allocations based upon your predefined objectives, risk tolerance, time horizon, financial horizon, financial information, liquidity needs, and other various suitability factors. Your restrictions and guidelines may affect the composition of your portfolio.

*Risks of methods of analysis:*

**Technical Analysis** - The risk of market timing based on technical analysis is that charts may not accurately predict future price movements. Current prices of securities may reflect all information known about the security and day-to-day changes in market prices of securities may follow random patterns and may not be predictable with any reliable degree of accuracy.

**Fundamental Analysis** - The risk of fundamental analysis is that information obtained may be incorrect and the analysis may not provide an accurate estimate of earnings, which may be the basis for a stock's value. If securities prices adjust rapidly to new information, utilizing fundamental analysis may not result in favorable performance.

We may use short-term trading (in general, selling securities within 30 days of purchasing the same securities) as an investment strategy when managing your account(s). Short-term trading is not a fundamental part of our overall investment strategy, but we may use this strategy occasionally when we determine that it is suitable given your stated investment objectives and tolerance for risk.

We may use investment strategies that involve buying and selling securities frequently in an effort to capture significant market gains and avoid significant losses during a volatile market. However, frequent trading can negatively affect investment performance, particularly through increased brokerage and other transactional costs and taxes.

**Risk of Loss**

Investing in securities involves risk of loss that you should be prepared to bear. We do not represent or guarantee that our services or methods of analysis can or will predict future results, successfully identify market tops or bottoms, or insulate clients from losses due to market corrections or declines. We cannot offer any guarantees or promises that your financial goals and objectives will be met. Past performance is in no way an indication of future performance.

**Recommendation of Particular Types of Securities**

As disclosed under the "Advisory Business" section in this Brochure, we primarily recommend mutual funds; however, we may recommend other types of investments as appropriate for you since each client has different needs and different tolerance for risk. Each type of security has its own unique set of risks associated with it and it would not be possible to list here all of the specific risks of every type of investment. Even within the same type of investment, risks can vary widely. However, in very general terms, the higher the anticipated return of an investment, the higher the risk of loss associated with it.

Mutual funds and exchange traded funds are professionally managed collective investment systems that pool money from many investors and invest in stocks, bonds, short-term money market instruments, other mutual funds, other securities, or any combination thereof. The fund will have a manager that trades the fund's investments in accordance with the fund's investment objective. While mutual funds and ETFs generally provide diversification, risks can be significantly increased if the fund is concentrated in a particular sector of the market, primarily invests in small cap or speculative companies, uses leverage (i.e., borrows money) to a significant degree, or concentrates in a particular type of security (i.e., equities) rather than balancing the fund with different types of securities. Exchange traded funds differ from mutual funds since they can be bought and sold throughout the day like stock and their price can fluctuate throughout the day. The returns on mutual funds and ETFs can be reduced by the costs to manage the funds. In addition, while some mutual funds are "no load" and charge no fee to buy into, or sell out of, the fund, other types of mutual funds charge such fees which can also reduce returns. Mutual funds can also be "closed end" or "open end." So-called "open end" mutual funds

continue to allow in new investors indefinitely, which can dilute other investors' interests. We primarily recommend no-load funds.

### ***Disciplinary Information***

Lighthouse Financial Advisors, Inc. has been registered and providing investment advisory services since 2000. Neither our firm nor any of our Associated Persons has any reportable disciplinary information.

### ***Other Financial Industry Activities and Affiliations***

#### **Registrations with Broker-Dealer**

Certain Associated Persons providing investment advice on behalf of our firm are registered representatives SII, a securities broker-dealer, and a member of the Financial Industry Regulatory Authority and the Securities Investor Protection Corporation.

#### **Insurance**

Certain Associated Persons providing investment advice on behalf of our firm may be licensed as insurance agents. These persons will earn commission-based compensation for selling insurance products, including insurance products they sell to you. Insurance commissions earned by these persons are separate from our advisory fees. Please see the "Fees and Compensation" section in this brochure for more information on the compensation received by insurance agents who are affiliated with our firm.

#### **Tax Services**

We are affiliated with Lighthouse Tax Services, LLC (LTS) through common control and ownership. Ed Kozlowski will primarily provide tax preparation services through LTS. We will contract a third party service provider or LTS directly for these services. LTS may outsource specialized services for tax or estate planning. Fees charged by LTS are separate and distinct from advisory fees charged by our firm for advisory services. It is expected that you may become a client of LTS and vice versa, but you are under no obligation to use the services of our firm, LTS, or of their associated persons.

Clients participating in the Compass Program and who have accounts valued more than \$500,000 may be provided tax services and estate planning services through LTS at no additional charge. Additionally, we may cover the costs of certain legal services for basic wills, power of attorneys, etc. related to financial and/or estate planning.

### ***Code of Ethics, Participation or Interest in Client Transactions and Personal Trading***

#### **Description of Our Code of Ethics**

We strive to comply with applicable laws and regulations governing our practices. Therefore, our Code of Ethics includes guidelines for professional standards of conduct for our Associated Persons. Our goal is to protect your interests at all times and to demonstrate our commitment to our fiduciary duties of honesty, good faith, and fair dealing with you. All of our Associated Persons are expected to adhere strictly to these guidelines. Our

Code of Ethics also requires that certain persons associated with our firm submit reports of their personal account holdings and transactions to a qualified representative of our firm who will review these reports on a periodic basis. Persons associated with our firm are also required to report any violations of our Code of Ethics. Additionally, we maintain and enforce written policies reasonably designed to prevent the misuse or dissemination of material, non-public information about you or your account holdings by persons associated with our firm.

Clients or prospective clients may obtain a copy of our Code of Ethics by contacting us at the telephone number on the cover page of this brochure.

#### **Participation or Interest in Client Transactions**

Neither our firm nor any of our Associated Persons has any material financial interest in client transactions beyond the provision of investment advisory services as disclosed in this brochure.

#### **Personal Trading Practices**

Our firm or persons associated with our firm may buy or sell the same securities that we recommend to you or securities in which you are already invested. However, the foregoing policy does not apply to investments in:

- (i) direct obligations of the Government of the United States;
- (ii) money market instruments, bankers' acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments, including repurchase agreements;
- (iii) shares issued by mutual funds or money market funds; and,
- (iv) shares issued by unit investment trusts that are invested exclusively in one or more mutual funds.

Although clients and we are invested primarily in mutual funds, a potential conflict of interest exists in such cases where we could have the ability to trade other types of securities, such as exchange traded funds or other equities, ahead of you and potentially receive more favorable prices than you will receive. To eliminate this conflict of interest, it is our policy that neither our Associated Persons nor we shall have priority over your account in the purchase or sale of such securities.

### ***Brokerage Practices***

When suggesting a broker, associated persons of our firm that are registered representatives of SII will generally recommend SII. There is no requirement that you use such broker as recommended. However, this might prohibit the associated person from working with you as described more fully below.

Associated persons who are registered representatives of SII are subject to FINRA, formerly NASD conduct Rule 3040. The Rule requires registered individuals to conform to SII's supervisory requirements when conducting securities transactions away from SII.

#### **Schwab**

##### ***The Custodian and Brokers We Use***

We do not maintain custody of your assets that we manage, although we may be deemed to have custody of your assets if you give us authority to withdraw assets from your account. Your assets must be maintained in an account at a "qualified custodian," generally a broker/dealer or bank. We recommend that our clients use Charles Schwab & Co., Inc. (Schwab), a registered broker-dealer, member SIPC, as the qualified custodian. We are independently owned and operated and are not affiliated with Schwab. Schwab will hold your assets in a brokerage account, and will buy and sell securities when you or we instruct them to. While we recommend that you use Schwab as custodian/broker, you will decide whether to do so and will open your account with Schwab by entering into an account agreement directly with them. We do not open the account for you,

although we may assist you in doing so. Even though your account is maintained at Schwab, we can still use other brokers to execute trades for your account as described below (see “*Your Brokerage and Custody Costs*”).

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

We seek to recommend a custodian/broker who will hold your assets and execute transactions on terms that are, overall, most advantageous when compared to other available providers and their services. We consider a wide range of factors, including, among others:

- Combination of transaction execution services and asset custody services (generally without a separate fee for custody)
- Capability to execute, clear, and settle trades (buy and sell securities for your account)
- Capability to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payment, etc.)
- Breadth of available investment products (stocks, bonds, mutual funds, exchange-traded funds [ETFs], etc.)
- Availability of investment research and tools that assist us in making investment decisions
- Quality of services
- Competitiveness of the price of those services (commission rates, margin interest rates, other fees, etc.) and willingness to negotiate the prices
- Reputation, financial strength, and stability
- Prior service to us and our other clients
- Availability of other products and services that benefit us, as discussed below (see “*Products and Services Available to Us From Schwab*”)

#### *Your Brokerage and Custody Costs*

For our clients’ accounts that Schwab maintains, Schwab generally does not charge you separately for custody services, but it is compensated by charging you commissions or other fees on trades that it executes or that settle into your Schwab account. For some accounts, Schwab may charge you a percentage of the dollar amount of assets in the account in lieu of commissions. Schwab’s commission rates applicable to our client accounts were negotiated based on the condition that our clients collectively maintain a total of at least \$10 million of their assets in accounts at Schwab. This commitment benefits you because the overall commission rates you pay are lower than they would be otherwise. In addition to commissions Schwab charges you a flat dollar amount as a “prime broker” or “trade away” fee for each trade that we have executed by a different broker-dealer but where the securities bought or the funds from the securities sold are deposited (settled) into your Schwab account. These fees are in addition to the commissions or other compensation you pay the executing broker-dealer. Because of this, in order to minimize your trading costs, we have Schwab execute most trades for your account. We have determined that having Schwab execute most trades is consistent with our duty to seek “best execution” of your trades. Best execution means the most favorable terms for a transaction based on all relevant factors, including those listed above (see “*How We Select Brokers/Custodians*”).

#### *Products and Services Available to Us From Schwab*

Schwab Advisor Services™ (formerly called Schwab Institutional®) is Schwab’s business serving independent investment advisory firms like us. They provide our clients and us with access to its institutional brokerage—trading, custody, reporting, and related services—many of which are not typically available to Schwab retail customers. Schwab also makes available various support services. Some of those services help us manage or administer our clients’ accounts; while others help us manage and grow our business. Schwab’s support services generally are available on an unsolicited basis (we don’t have to request them) and at no charge to us as long as our clients collectively maintain a total of at least \$10 million of their assets in accounts at Schwab. If our clients collectively have less than \$10 million in assets at Schwab, Schwab may charge us quarterly service fees of \$1,200. Following is a more detailed description of Schwab’s support services:

#### *Services That Benefit You.*

Schwab’s institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through Schwab

include some to which we might not otherwise have access or that would require a significantly higher minimum initial investment by our clients. Schwab's services described in this paragraph generally benefit you and your account.

#### *Services That May Not Directly Benefit You.*

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

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

#### *Services That Generally Benefit Only Us.*

Schwab also offers other services intended to help us manage and further develop our business enterprise. These services include:

- Educational conferences and events
- Consulting on technology, compliance, legal, and business needs
- Publications and conferences on practice management and business succession
- Access to employee benefits providers, human capital consultants, and insurance providers

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

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

The availability of these services from Schwab benefits us because we do not have to produce or purchase them. We do not have to pay for Schwab's services so long as our clients collectively keep a total of at least \$10 million of their assets in accounts at Schwab. Beyond that, these services are not contingent upon us committing any specific amount of business to Schwab in trading commissions or assets in custody. The \$10 million minimum may give us an incentive to recommend that you maintain your account with Schwab, based on our interest in receiving Schwab's services that benefit our business rather than based on your interest in receiving the best value in custody services and the most favorable execution of your transactions. This is a potential conflict of interest. We believe, however, that our selection of Schwab as custodian and broker is in the best interests of our clients. Our selection is primarily supported by the scope, quality, and price of Schwab's services (see "*How We Select Brokers/Custodians*") and not Schwab's services that benefit only us.

#### **Brokerage for Client Referrals**

We do not receive client referrals from broker-dealers in exchange for cash or other compensation, such as brokerage services or research.

#### **Directed Brokerage**

We routinely recommend that you direct our firm to execute transactions through Schwab. As such, we may be unable to achieve the most favorable execution of your transactions and you may pay higher brokerage commissions than you might otherwise pay through another broker-dealer that offers the same types of services. Not all advisers require their clients to direct brokerage.

Persons providing investment advice on behalf of our firm who are registered representatives of SII may recommend SII to you for certain securities transactions/brokerage services. These individuals are subject to applicable rules that restrict them from conducting certain securities transactions away from SII unless SII

provides the representative with written authorization to do so. Therefore, these individuals are generally limited to conducting certain securities transactions through SII. It may be the case that SII charges higher transactions costs and/or custodial fees than another broker charges for the same types of services. If transactions are executed through SII, these individuals (in their separate capacities as registered representatives of SII) may earn commission-based compensation as result of placing the recommended securities transactions through SII. This practice presents a conflict of interest because these registered representatives might have an incentive to effect securities transactions for the purpose of generating commissions rather than solely based on your needs. You may utilize the broker-dealer of your choice and have no obligation to purchase or sell securities through such broker as, we recommend. Please see the "Fees and Compensation" section in this brochure for more information on the compensation received by registered representatives who are affiliated with our firm.

#### **Block Trades**

We do not combine multiple orders for shares of the same securities purchased for advisory accounts we manage (the practice of combining multiple orders for shares of the same securities is commonly referred to as "block trading"). Accordingly, you may pay different prices for the same securities transactions than other clients pay. Furthermore, we may not be able to buy and sell the same quantities of securities for you and you may pay higher commissions, fees, and/or transaction costs than other clients.

### ***Review of Accounts***

Thomas M. Kozlowski, President, Andrew P. Wilson, Vice President, and Edward S. Kozlowski, Chief Compliance Officer will monitor your accounts on a continuous basis to ensure the advisory services provided to you are consistent with your investment needs and objectives. We will offer you a formal account review on an annual basis where you will receive a progress report. Additional reviews may be conducted upon your request. Triggering factors that may stimulate a review include, but are not limited to, significant market corrections, large deposits, or withdrawals from an account, and your request for an additional review. You will receive reports, at least quarterly, from the custodian holding their funds and securities.

If you are a financial planning client, who implements the plan through us, we recommend annual meetings to review the progress of the plan. If you do not implement the plan through us, additional consultations, reviews, and/or updates to existing plans may be subject to our then current hourly rate.

### ***Client Referrals and Other Compensation***

We do not receive any compensation from any third party in connection with providing investment advice to you nor do we compensate any individual or firm for client referrals.

As disclosed under the "Fees and Compensation" section in this brochure, certain persons providing investment advice on behalf of our firm are licensed insurance agents, and certain persons are registered representatives with SII, a securities broker-dealer, and a member of the Financial Industry Regulatory Authority and the Securities Investor Protection Corporation. For information on the conflicts of interest this presents, and how we address these conflicts, please refer to the "Fees and Compensation" section.

We receive economic benefits from Schwab in the form of the support products and services it makes available to us and other independent investment advisors whose clients maintain their accounts at Schwab. These



products and services, how they benefit us, and the related conflicts of interest are described above in the "Brokerage Practices" section of this brochure. The availability to us of Schwab's products and services is not based on us giving particular investment advice, such as buying particular securities for our clients.

## ***Custody***

As paying agent for our firm, your independent custodian will directly debit your account(s) for the payment of our advisory fees. This ability to deduct our advisory fees from your accounts causes our firm to exercise limited custody over your funds or securities. We do not have physical custody of any of your funds and/or securities. Your funds and securities will be held with a bank, broker-dealer, or other independent, qualified custodian. You will receive account statements from the independent, qualified custodian(s) holding your funds and securities at least quarterly. The account statements from your custodian(s) will indicate the amount of our advisory fees deducted from your account(s) each billing period. You should carefully review account statements for accuracy. If you have a question regarding your account statement, or if you did not receive a statement from your custodian, please contact us directly at the telephone number on the cover page of this brochure.

## ***Investment Discretion***

Before we can buy or sell securities on your behalf, you must first sign our discretionary management agreement, a power of attorney, and/or trading authorization forms.

You may grant our firm discretion over the selection and amount of securities to be purchased or sold for your account(s) without obtaining your consent or approval prior to each transaction. You may specify investment objectives, guidelines, and/or impose certain conditions or investment parameters for your account(s). For example, you may specify that the investment in any particular stock or industry should not exceed specified percentages of the value of the portfolio and/or restrictions or prohibitions of transactions in the securities of a specific industry or security. Please refer to the "Advisory Business" section in this brochure for more information on our discretionary management services. If you enter into non-discretionary arrangements with our firm, we will obtain your approval prior to the execution of any transactions for your account(s). You have an unrestricted right to decline to implement any advice provided by our firm on a non-discretionary basis.

## ***Voting Client Securities***

### **Proxy Voting**

We will not vote proxies on behalf of your advisory accounts. At your request, we may offer you advice regarding corporate actions and the exercise of your proxy voting rights. If you own shares of common stock or mutual funds, you are responsible for exercising your right to vote as a shareholder.

In most cases, you will receive proxy materials directly from the account custodian. However, in the event we were to receive any written or electronic proxy materials, we would forward them directly to you by mail, unless you have authorized our firm to contact you by electronic mail, in which case, we would forward any electronic

solicitation to vote proxies.

### ***Financial Information***

Our firm does not have any financial conditions or impairments that would prevent us from meeting our contractual commitments to you. We do not take physical custody of client funds or securities, or serve as trustee or signatory for client accounts, and, we do not require the prepayment of more than \$1,200 in fees six or more months in advance. Therefore, we are not required to include a financial statement with this brochure.

### ***Additional Information***

#### **Your Privacy**

We view protecting your private information as a top priority. Pursuant to applicable privacy requirements, we have instituted policies and procedures to ensure that we keep your personal information private and secure.

We do not disclose any nonpublic personal information about you to any nonaffiliated third parties, except as permitted by law. In the course of servicing your account, we may share some information with our service providers, such as transfer agents, custodians, broker-dealers, accountants, consultants, and attorneys.

We restrict internal access to nonpublic personal information about you to employees, who need that information in order to provide products or services to you. We maintain physical and procedural safeguards that comply with regulatory standards to guard your nonpublic personal information and to ensure our integrity and confidentiality. We will not sell information about you or your accounts to anyone. We do not share your information unless it is required to process a transaction, at your request, or required by law.

You will receive a copy of our privacy notice prior to or at the time you sign an advisory agreement with our firm. Thereafter, we will deliver a copy of the current privacy policy notice to you on an annual basis. Please contact our main office at the telephone number on the cover page of this brochure if you have any questions regarding this policy.

#### **Trade Errors**

In the event a trading error occurs in your account, our policy is to restore your account to the position it should have been in had the trading error not occurred. Depending on the circumstances, corrective actions may include canceling the trade, adjusting an allocation, and/or reimbursing the account. If a trade error results in a profit, the trade error will be corrected in the trade error account of the executing broker-dealer and you will not keep the profit.

#### **Class Action Lawsuits**

We do not determine if securities held by you are the subject of a class action lawsuit or whether you are eligible to participate in class action settlements or litigation nor do we initiate or participate in litigation to recover damages on your behalf for injuries as a result of actions, misconduct, or negligence by issuers of securities held by you.