



Firm Brochure

(Part 2A of Form ADV)

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This brochure provides information about the qualifications and business practices of YellowWood Financial Advisors, Inc. If you have any questions about the contents of this brochure, please contact us at: 240-813-1300, or by email at: info@ywfa.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.

Additional information about YellowWood Financial Advisors, Inc. is available on the SEC's website at www.adviserinfo.sec.gov

March 25, 2011

Material Changes

Annual Update

The Material Changes section of this brochure will be updated annually when material changes occur from the previous release of the Firm Brochure.

Material Changes since the Last Update

The U.S. Securities and Exchange Commission issued a final rule in July 2010 requiring advisers to provide a Firm Brochure in narrative “plain English” format. The new final rule specifies mandatory sections and organization.

Full Brochure Available

Whenever you would like to receive a complete copy of our Firm Brochure, please contact us by telephone at: 240-813-1300 or by email at: info@ywfa.com.

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Advisory Business

Firm Description

YellowWood Financial Advisors, Inc. , (“YellowWood”) was founded in 1993.

YellowWood provides personalized confidential financial planning and investment management to individuals, pension and profit sharing plans, trusts, estates, charitable organizations and small businesses. Advice is provided through consultation with the client and may include: determination of financial objectives, identification of financial problems, cash flow management, tax planning, insurance review, investment management, education funding, retirement planning, and estate planning.

YellowWood does not sell annuities, insurance, stocks, bonds, mutual funds, limited partnerships, or other commissioned products. YellowWood is not affiliated with entities that sell financial products or securities. No commissions in any form are accepted. YellowWood does not act as a custodian of client assets. The client always maintains asset control. YellowWood places trades for clients under a limited power of attorney.

YellowWood is strictly a fee-only financial planning and investment management firm. Investment advice is an integral part of financial planning. The investment strategy for a client is based on the objectives the client stated during consultations. The client may change these objectives at any time. Periodic reviews are communicated, more frequent reviews occur but are not necessarily communicated to the client unless immediate changes are recommended.

On an as-needed basis we may recommend that clients directly engage the services of other professionals (e.g., lawyers, accountants, insurance agents, etc.). In the event of a conflict of interest we will disclose this to the client.

An initial meeting with prospective clients, is free of charge, and is considered an exploratory interview to determine the extent to which financial planning and investment management may be beneficial to the client.

Principal Owners

Brian R. Lipton is the sole shareholder.

Types of Advisory Services

YellowWood provides investment supervisory services, also known as asset management services, and furnishes investment advice through consultations. On more than an occasional basis, we furnish advice to clients on matters not involving securities, typically financial planning matters, taxation issues, and trust services that often include estate planning. Client relationships vary in scope and length of service.

Tailored Relationships

The goals and objectives for each client are determined through ongoing discussions and consultations and are documented in our client relationship management system. Investment policy statements are created that reflect the stated goals and objective. Clients may impose restrictions on investing in certain securities or types of securities.

Assets Under Management

As of December 31, 2011, YellowWood manages approximately \$108 million in assets for approximately 85 clients. Approximately \$107 million is managed on a discretionary basis, and \$1 million is managed on a non-discretionary basis.

Types of Agreements

YellowWood uses a number of client agreements to reflect the services being provided. We do not assign agreements without client consent. We explain the conditions for each type of agreement and the associated fees in the following sections.

Financial Planning Agreement

A financial plan is designed to help the client with all aspects of financial planning without ongoing investment management after the financial plan is completed.

The financial plan may include, but is not limited to: a net worth statement; a cash flow statement; a review of investment accounts, including reviewing asset allocation and providing repositioning recommendations; strategic tax planning; a review of retirement accounts and plans including recommendations; a review of insurance policies and recommendations for changes, if necessary; one or more retirement scenarios; estate planning review and recommendations; and education planning with funding recommendations.

Detailed investment advice and specific recommendations are provided as part of a financial plan. Implementation of the recommendations is at the discretion of the client. When YellowWood is engaged for investment management services, a separate investment advisory agreement is executed.

The fee for a financial plan is predicated upon the facts known at the start of the engagement. The fee range is \$2,500 to \$7,500 and is negotiable.

Since financial planning is a discovery process, situations occur wherein the client is unaware of certain financial exposures or predicaments. In the event that the client's situation is substantially different than disclosed at the initial meeting, a revised fee will be provided for mutual agreement. The client must approve the change of scope in advance of the additional work being performed when a fee increase is necessary.

After delivery of a financial plan, future meetings may be scheduled as necessary to foster implementation. Follow-up implementation work may be billed separately, on a case by case basis, and as agreed to.

Investment Advisory Agreement

Most clients choose to have YellowWood manage their assets to obtain ongoing in-depth advice and life planning. We review all aspects of the client's financial affairs so we can set realistic and measurable goals and define strategies to reach those goals. As goals and objectives change over time, we change and implement strategies.

The scope of work and fee for an Investment Advisory Agreement is provided to the client in writing prior to the start of the relationship.

The annual Investment Advisory Agreement fee is based on a percentage of the investable assets according to the following schedule:

- 1.00% on the first \$1,000,000;
- 0.80% on the next \$1,000,000 (from 1,000,001 to 2,000,000);
- 0.60% on the next \$1,000,000 (from 2,000,001 to 3,000,000);
- 0.50% on the next \$3,000,000 (from 3,000,001 to 6,000,000); and
- 0.40% on the assets above \$6,000,000.

The minimum annual fee is \$4,000 and is negotiable. Current client relationships may exist where the fees are higher or lower than the fee schedule above. We bill quarterly, in advance. To facilitate billing we usually deduct fees from a designated client account. Clients must consent in advance to direct billing of their accounts.

An *Investment Advisory Service Agreement* is an ongoing agreement. The length of service to the client is at the client's discretion.

Retainer Agreement

In some circumstances, a *Retainer Agreement* is executed in lieu of an *Advisory Service Agreement* when it is more appropriate to work on a fixed-fee basis. The annual fee for a *Retainer Agreement* is \$10,000 and is negotiable.

Tax Preparation Agreement

We charge an hourly rate of \$250 for tax preparation work performed. The minimum fee for tax preparation is \$500.

Hourly Planning Engagements

YellowWood provides hourly planning services for clients who need advice on a limited scope of work. The hourly rate for limited scope engagements is \$250.

Asset Management

YellowWood primarily invests in no-load or low-load mutual funds, exchange-traded funds, and stocks, usually through discount brokers or fund companies. Fund companies charge each fund shareholder an investment management fee that is disclosed in the fund prospectus. Discount brokerages may charge a transaction fee for the purchase of some funds.

Stocks and bonds may be purchased or sold through a brokerage account when appropriate. The brokerage firm charges a fee for stock and bond trades. YellowWood does not receive any compensation, in any form, from fund companies or brokerage firms.

Investments may also include: warrants, corporate debt securities, commercial paper, certificates of deposit, municipal securities, investment company securities (variable annuities, and mutual funds shares), U. S. government securities, options contracts, futures contracts, and interests in partnerships.

Termination of Agreement

The client or the investment manager may terminate an Agreement by written notice to the other party. At termination, fees will be billed on a pro rata basis for the portion of the quarter completed. The portfolio value at the completion of the prior full billing quarter is used as the basis for the fee computation, adjusted for the number of days during the billing quarter prior to termination.

Fees and Compensation

Description

YellowWood bases its fees on a percentage of assets under management, fixed fees, or charges hourly rates. We describe fee details for each of the agreement types in their respective sections above.

We may, in our sole discretion, waive the minimum fee and/or charge a lesser investment advisory fee based on various criteria (e.g., historical relationship, type of assets, anticipated future earning capacity, anticipated future additional assets, dollar amounts of assets to be managed, related accounts, account composition, familial relationships, and other factors).

Fee Billing

Investment management fees are billed quarterly, in advance, meaning that we invoice you before the three-month billing period has begun. Fees are usually deducted from a designated client account to facilitate billing. The client must consent in advance to direct debiting of their investment account.

Some clients, by virtue of existing agreements prior to using YellowWood, are billed quarterly in arrears, meaning that they are invoiced after the three month billing period has ended.

Fees for financial plans are billed 50% in advance, with the balance due upon delivery of the financial plan.

Other Fees

Custodians may charge transaction fees on purchases or sales of certain mutual funds and exchange-traded funds. These transaction charges are usually small and incidental to the purchase or sale of a security. The selection of the security is more important than the nominal fee that the custodian charges to buy or sell the security.

Expense Ratios

Mutual funds generally charge a management fee for their services as investment managers. The management fee is called an expense ratio. For example, an expense ratio of 1.00 means that the mutual fund company charges 1.0% for their services. These fees are in addition to the fees paid by you to YellowWood.

Performance figures quoted by mutual fund companies are shown net (after their fee has been deducted) of fees.

Past Due Accounts and Termination of Agreement

YellowWood reserves the right to stop work on any account that is more than 90 days overdue. In addition, YellowWood reserves the right to terminate any financial planning engagement where a client has willfully concealed or has refused to provide pertinent information about financial situations when necessary and appropriate, in YellowWood's judgment, to providing proper financial advice. Any unused portion of fees collected in advance will be refunded within 90 days.

Performance-Based Fees

Sharing of Capital Gains

Fees are not based on a share of the capital gains or capital appreciation of managed securities.

YellowWood does not use a performance-based fee structure because of the potential conflict of interest. Performance-based compensation may create an incentive for the adviser to recommend an investment that may carry a higher degree of risk to the client.

Types of Clients

Description

YellowWood generally provides investment advice to individuals, high net worth individuals, pension and profit sharing plans, trusts, estates, charitable organizations, corporations or business entities.

Client relationships vary in scope and length of service.

Account Minimums

The minimum account size is \$400,000 of assets under management, which equates to an annual fee of \$4,000.

YellowWood has the discretion to waive the account minimum. Accounts of less than \$400,000 may be set up when the client and the advisor anticipate the client will add additional funds to the accounts bringing the total to \$400,000 within a reasonable time.

Methods of Analysis, Investment Strategies and Risk of Loss

Methods of Analysis

Security analysis methods include fundamental and technical analysis.

Main sources of information that YellowWood use include Morningstar mutual fund information, Morningstar stock information; research, news, and analysis provided by Charles Schwab, Fidelity, Advisor Intelligence, and other financial service providers.

Other sources of information include financial newspapers and magazines, inspections of corporate activities, research materials prepared by others, corporate rating services, timing services, annual reports, prospectuses, filings with the Securities and Exchange Commission, and company press releases.

Investment Strategies

The primary investment strategy used on client accounts is strategic asset allocation. Portfolios are diversified among several asset classes (such as domestic and international equities, fixed income investments and absolute return investments), to decrease the risk associated with traditional markets.

We use a combination of actively managed mutual and exchange traded funds, passive indexes and exchange traded funds, separately managed accounts, and individual securities to achieve diversification in accordance with client objectives and preferred investment vehicle (funds, ETFs, etc.), if any.

The investment strategy for a specific client is based on the client objectives. The client may change these objectives at any time. Clients typically execute an Investment Policy Statement that documents their objectives and their desired investment strategy.

On occasion, we may also sell covered calls, by puts, short against the box (selling short a long position in a portfolio), or go on margin on a client by client basis.

Risk of Loss

All investment programs have certain risks that are borne by the investor. Our investment approach constantly keeps the risk of loss in mind. Investors face the following investment risks:

- **Interest-rate Risk:** Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds become less attractive, causing their market values to decline.
- **Market Risk:** The price of a security, bond, or mutual fund may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events.
- **Inflation Risk:** When any type of inflation is present, a dollar today will not buy as much as a dollar next year, because purchasing power is eroding at the rate of inflation.
- **Currency Risk:** Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment's originating country. This is also referred to as exchange rate risk.
- **Reinvestment Risk:** This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e. interest rate). This primarily relates to fixed income securities.
- **Business Risk:** These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They carry a higher risk of profitability than an electric company, which generates its income from

a steady stream of customers who buy electricity no matter what the economic environment is like.

- **Liquidity Risk:** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- **Financial Risk:** Excessive borrowing to finance a business' operations increases the risk of profitability, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.

Disciplinary Information

Legal and Disciplinary

YellowWood and its employees have not been involved in legal or disciplinary events related to past or present investment clients.

Other Financial Industry Activities and Affiliations

Financial Industry Activities

YellowWood may on occasion prepare tax returns for advisory and non-advisory clients. These activities would comprise no more than one hundred hours per year.

Affiliations

There are no activities or affiliations with broker-dealers.

Brian R. Lipton is a member of the Financial Planning Association (FPA), the American Institute of Certified Public Accountants (AICPA), and the Center for Fiduciary Studies, LLC. James David Walker is a member of the Financial Planning Association (FPA), and the Center for Fiduciary Studies, LLC.

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

Code of Ethics

The employees of YellowWood have committed to a Code of Ethics that is available for review by clients and prospective clients upon request. YellowWood will provide a copy of the Code of Ethics to any client or prospective client upon request.

Participation or Interest in Client Transactions

YellowWood and its employees may buy or sell securities that are also held by clients. Employees may not trade their own securities ahead of client trades. Employees comply with the provisions of the YellowWood *Compliance Manual*.

Personal Trading

The Chief Compliance Officer of YellowWood is Brian R. Lipton. He reviews all employee trades each quarter. His trades are reviewed by Andrew B. Goodman or James David Walker. The personal trading reviews ensure that the interest of client accounts will at all times be placed first. Since employee trades are small, the trades do not affect the securities markets.

Brokerage Practices

Selecting Brokerage Firms

YellowWood does not have any affiliation with product sales firms. Specific custodian recommendations are made to Clients based on their need for such services. YellowWood recommends custodians based on the proven integrity and financial responsibility of the firm and the best execution of orders at reasonable commission rates.

YellowWood recommends discount brokerage firms and trust companies (qualified custodians), such as Charles Schwab, Fidelity and TIAA-CREF.

YellowWood does not receive fees or commissions from any of these arrangements.

Best Execution

YellowWood reviews the execution of trades at each custodian. The review is documented in the YellowWood *Compliance Manual*. Trading fees charged by the custodians is also reviewed. YellowWood does not receive any portion of the trading fees.

Soft Dollars

YellowWood, as a matter of policy and practice, does not have any formal or informal arrangements or commitments to utilize research, research-related products and other services obtained from broker-dealers, or third parties, on a soft dollar commission basis.

Order Aggregation

The aggregation or blocking of client transactions allows us to execute transactions in a more timely, equitable, and efficient manner and seeks to reduce overall commission charges to clients. YellowWood's policy is to aggregate client transactions where possible and when advantageous to

clients. In these instances clients participating in any aggregated transactions will receive an average share price and transaction costs will be shared equally and on a pro-rata basis.

YellowWood's policy prohibits any allocation of trades in a manner that YellowWood's proprietary accounts, affiliated accounts, or any particular client(s) or group of clients receive more favorable treatment than other client accounts.

A significant amount of YellowWood's trading pertains to mutual funds, where trade aggregation and allocation does not garner any benefit to client(s).

Review of Accounts

Periodic Reviews

Accounts are monitored on a continuous basis, and are reviewed on a quarterly, semi-annual, or annual basis, depending on the needs of the client. Account reviews are performed quarterly by advisors Brian R. Lipton, President and Andrew B. Goodman, Director. Account reviews are performed more frequently when market conditions dictate.

Review Triggers

Other conditions that may trigger a review are changes in the tax laws, new investment information, and changes in a client's own situation.

Regular Reports

YellowWood provides clients with reports on a quarterly, semi-annual, or annual basis, depending on the needs of the client. All such reports will typically include a list of securities held, the cost of such securities, the current market value, annual yield and performance.

Client Referrals and Other Compensation

Incoming Referrals

YellowWood has been fortunate to receive many client referrals over the years. Referrals come from current clients, attorneys, accountants, employees, personal friends of employees and other similar sources. YellowWood does not compensate referring parties for these referrals.

Referrals Out

YellowWood does not accept referral fees or any form of remuneration from other professionals when a prospect or client is referred to them.

Other Compensation

None

Custody

Account Statements

All assets are held at qualified custodians, which means the custodians provide account statements directly to clients at their address of record at least quarterly.

Debiting Fees

YellowWood typically debits fees from client accounts to facilitate billing. The client must consent in advance to direct debiting of their investment account.

Performance Reports

Clients are urged to compare the account statements received directly from their custodians to the performance report statements provided by YellowWood.

Investment Discretion

Discretionary Authority for Trading

YellowWood accepts discretionary authority to manage securities accounts on behalf of clients. YellowWood has the authority to determine, without obtaining specific client consent, the securities to be bought or sold, and the amount of the securities to be bought or sold.

The client approves the custodian to be used and the commission rates paid to the custodian. YellowWood does not receive any portion of the transaction fees or commissions paid by the client to the custodian on certain trades.

Discretionary trading authority facilitates placing trades in your accounts on your behalf so that we may promptly implement the investment policy that you have approved in writing.

Limited Power of Attorney

The client signs a limited power of attorney so that we may execute trades on their behalf. We have the authority to determine, without obtaining specific client consent, the securities to be bought or sold, and the amount of the securities to be bought or sold.

Voting Client Securities

Proxy Votes

YellowWood does not vote proxies on securities. Clients are expected to vote their own proxies. Custodians (or their agents) are responsible for sending proxies to the client.

When assistance on voting proxies is requested, YellowWood will provide recommendations to the Client. If a conflict of interest exists, it will be disclosed to the Client.

Financial Information

Financial Condition

YellowWood does not have any financial impairment that will preclude the firm from meeting contractual commitments to clients.

A balance sheet is not required to be provided because YellowWood does not serve as a custodian for client funds or securities, and does not require prepayment of fees of more than \$1,200 per client, six months or more in advance.