

***Montgomery Financial Advisors LLC***

**FORM ADV – PART 2A INFORMATION**

**March 31, 2011**

**Montgomery Financial Advisors LLC**

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**This brochure provides information about the qualifications and business practices of Montgomery Financial Advisors LLC (“MFA”). If you have any questions about the contents of this brochure, please contact us at (908) 359-7414.**

**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 Montgomery Financial Advisors LLC, including a copy of its Form ADV Part 1, is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## Item 2 Material Changes

There have not been any material changes to this brochure since its last annual filing.

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#### Item 4 - Advisory Business

MFA is an investment adviser registered with the Securities and Exchange Commission ("SEC"). The firm provides fee-only financial planning, fee-based investment management and investment consultation services by an hourly rate or flat-fee basis to its clients. MFA does not pay any finders' fees for client referrals or sell any securities or other financial products for commissions. MFA became registered as an investment adviser with the SEC in May 1996. MFA is wholly-owned by Joseph R. Caravello. MFA does not control any other investment advisory firms. The advisory services of MFA are described in detail below.

#### Financial Planning

Joseph R. Caravello holds the Certified Financial Planner certification (CFP®) issued by the CFP Board of Standards, Inc. and follows the planning process defined by the CFP Board. The CFP® certification must be periodically renewed. The CFP Board states: "By meeting the CFP Board's ongoing competency requirements of continuing education (CE) and by adhering to the CFP Board's Code of Ethics and Professional Responsibility (Code of Ethics) and Financial Planning Practice Standards (Practice Standards), CFP®, certificants demonstrate to the public that they are individuals who have voluntarily agreed to meet high standards of professionalism in a changing financial world. Certificants' compliance with CFP Board's certification standards helps to ensure the integrity of the CFP® certification marks for the benefit of the public." In accepting its fiduciary responsibility, clients' interests are placed first, before MFA's interests.

MFA's Financial Planning Services range from providing advice, guidance or recommendations for one area of client concern, e.g. retirement planning, to developing a comprehensive financial plan that may include cash flow analysis, debt analysis, net worth computation, insurance and investment analysis, education funding, income and estate tax planning. Recommendations from single issue focused plans, as well as comprehensive plans, may contain both short term and long term strategies to maximize the probability of achieving the client's goals.

MFA's process helps clients evaluate their current financial situation, uncover financial exposures needing attention and helps clients establish appropriate and realistic financial objectives. A written plan is developed to meet these objectives and contains a recommended action plan to address a client's specific needs and goals discovered by the analysis. MFA imposes no obligation on the part of the client, or MFA itself, to implement any of the plan's

recommendations. MFA believes effective financial planning to be an ongoing process and recommends monitoring a plan's progress and making periodic updates to client plans, and when there has been a significant change to a client's financial circumstances.

Prospective clients who decide to enter into a financial planning engagement with MFA are required to execute a Financial Planning Agreement (FPA) which details MFA's responsibilities as well as the client's responsibilities.

MFA does not sell any commissioned financial products, including insurance products. However, reviewing existing coverage for life and casualty insurance policies is done in a comprehensive plan or a modular plan singularly focused on insurance needs.

MFA does not provide legal or accounting services such as income tax preparation; Joseph R. Caravello is not licensed to practice law in any state and is not licensed to offer accounting advice or prepare income or estate tax returns.

Clients in need of insurance products, legal advice or accounting services are encouraged to seek the assistance of qualified professionals licensed to offer these services in their state.

#### Investment Management Service

Upon the completion of a financial plan, a client may or may not hire MFA to manage their investment assets on an ongoing basis. Clients are free to choose to manage their assets themselves or have this service provided by another firm.

If MFA is chosen to provide ongoing management services, the client is required to enter into an Investment Advisory Agreement (IAA) which details MFA's as well as the client's responsibilities.

MFA's investment strategy is centrally based upon asset allocation and modern portfolio design and management techniques. The basis for this approach is the Nobel Prize winning strategy called Modern Portfolio Theory. Based on the theory, our focus is on the overall composition of the portfolio (i.e. all of a client's taxable and non-taxable accounts that are under management) rather than the analysis and evaluation of their individual components. With this approach, we feel we can examine and design portfolios predicated on explicit risk-reward parameters and on

identification and quantification of portfolio objectives. We believe that the application of this strategy will add value by enhancing returns and reducing risk, thereby increasing the likelihood that investors will achieve their goals.

We believe asset allocation is the dominant factor in determining total portfolio return. Studies have shown that asset allocation decisions account for more than 90% of the variation of total returns, while security selection accounts for only a small residual portion of the variance of total returns. Therefore, the overwhelming determinant of the success of an investment strategy is not which securities or mutual funds were bought or sold, but how the assets were divided among the various asset classes.

The U.S. and foreign stock and bond markets are composed of numerous styles and sectors (i.e. large cap value, large cap growth, small cap value, and small cap growth, government bonds, corporate bonds, etc.). To access the return potential of the financial markets and reduce risk, we believe a portfolio must be diversified across each asset class as well. Our design and management process efficiently allocates capital to these assets by matching their rates of return to a specified and quantifiable tolerance for risk, i.e., the percentage of an investment portfolio an investor is willing to risk to obtain a specific rate of return. We believe this strategy works over long time frames i.e. at least 10 years.

Prior to the implementation of the asset allocation plan, an Investment Policy Statement is developed with the client until approved by the client. It is at this stage that the client may place any restrictions the asset classes to be used.

Our asset management strategy is implemented through no-load or load waived mutual funds, exchange traded funds or third party managers who invest in distinct asset classes. When requested by a client, individual securities may also be held in client portfolios. Buy and sell decisions of these individual securities are only made at MFA's discretion if a client authorizes MFA to do so.

To implement the investment plan, MFA looks for portfolio managers or specialists, who adhere to a distinct investment discipline, e.g. large company value or small company growth styles. By utilizing managers who are consistent in their respective investment style, we can obtain full coverage of both domestic and foreign markets.

We view portfolio management as a continuous process. Once needs are defined, a plan developed, and the strategy implemented, an ongoing confirmation and re-evaluation process takes over. There are two critical components of this process. First, each portfolio is re-balanced regularly to assure that the mix of assets defined to achieve client goals is continually in place. Re-balancing can reduce risk and keeps the investment plan on the right course. Secondly, each fund manager is continually monitored. The fund is subject to replacement should long-term performance significantly trail peer group performance or should management of the fund significantly deviate from its stated philosophy/process. A fund is also subject to replacement should the originally hired manager(s) leave and replacement management deemed unacceptable due to inexperience or a sub-par performance record elsewhere.

MFA does not guarantee the results of its recommendations and losses can occur by following MFA's advice, including the following of conservative investment strategies. MFA assumes that whenever any significant changes to a client's financial situation occurs, the client will contact MFA to advise of the change as soon as the change occurs. It is important that MFA has the most current information about a client so it can determine whether an update to the client's investment strategy is needed. Clients may call the offices of MFA at any time during normal business hours to discuss the client's portfolio, financial situation or investment needs.

Clients will have the choice to receive paper or electronic transaction confirmations from the brokerage/custodian firm processing trades as the trades occur, and monthly statements of account. Additionally, MFA provides its own quarterly portfolio reports. These reports consist of a statement of a client's total portfolio, a current asset allocation report and a performance report. The performance report shows rates of return and dollar values on a quarterly, year-to-date, rolling 12 months and from date of portfolio inception basis. Clients are encouraged to compare MFA reports with information on the custodian's reports. Each January, additional reports containing information needed to file income tax returns (Realized Gains and Losses and Income reports) are provided for taxable accounts that had taxable transactions during the preceding year.

A client or clients of joint accounts own(s) each security in the client's account. MFA generally has limited power of attorney over a client's account but does not take custody over any client assets. Clients have the ability to establish standing instructions with MFA to refrain from

investing in specific securities or limit amounts invested in specific securities and to vote proxies. MFA will direct all purchase and sale orders to the broker designated by MFA unless the client designates a broker. Generally the custodian chosen by MFA is the Charles Schwab Company.

MFA is not affiliated with a broker and will choose a broker for a client based upon the brokerage firm's quality of service, financial strength, competence and ability to provide trade executions at competitive commission rates. The broker and/or trust company will maintain custody of all account assets and provide such other custodial functions customarily performed with respect to securities brokerage accounts. All brokerage commissions, stock transfer fees and other similar charges incurred by the client's account(s) are paid out of account assets. A current list of transaction fees is available upon request. MFA does not receive any portion of these fees. MFA receives fees for Investment Management Services from its clients only. Please refer to Item 12 for a full description of our brokerage practices. As of the date of this brochure, MFA has \$29,422,000 in assets under discretionary management and zero assets under non-discretionary management.

#### Investment Consultation Services

In addition to fee-based Investment Management Services, MFA provides investment advice through individual Investment Consultation Services offered for an hourly rate or flat fee project rate. Investment Advisory Consultations can be general in nature or focused on particular areas of interest, depending upon the client's needs. For example topics such as investment analysis, retirement funding, cash flow analysis and other subjects can be addressed. The exact services and reports to be provided are determined during the initial consultation with each client.

#### Item 5 - Fees and Compensation

MFA is a Fee-Only firm. This means that we are only compensated by the direct fees that we charge our clients, not by commissions for selling and/or recommending products. MFA charges separate fees for financial planning work and ongoing investment management services.

MFA's consultation fee is \$150.00 per hour for non-ongoing financial planning or investment management clients. There is no charge for consultation with active financial planning and ongoing investment management clients.



Fees for financial plans range from \$750.00 for a basic retirement plan to over \$3,500.00 for comprehensive plans, depending upon the complexity of the work to be done. After initial data is reviewed by MFA, an engagement letter detailing the work to be done and the fee to be charged is sent to the client for approval. Once approved, the Financial Planning Agreement is signed. At that time, 50% of the agreed upon fee is due for the delivery of the plan within 2-3 months, depending upon complexity of the situation and the timeliness of client responses to requested information. After the final plan is accepted by the client, the balance of the fee becomes due and payable to MFA.

The fees charged for ongoing investment management services are as follows:

*SCHEDULE 1: FOR TOTAL ACCOUNT BALANCES UP TO \$ 1,000,000*

RATE APPLIED TO	TOTAL ANNUAL %	PAYABLE QTLY @
\$1 - \$100,000	1.50%	.375%
\$100,001 - \$250,000	1.25%	.3125%
\$250,001 - \$500,000	1.00%	.25%
\$500,001 - \$ 1,000,000	.75%	.1875%

*SCHEDULE 2: FOR TOTAL ACCOUNT BALANCES GREATER THAN \$1,000,000*

RATE APPLIED TO	TOTAL ANNUAL %	PAYABLE QTLY @
\$1 - \$1,000,000	.75%	.1875%
\$1,000,001 & above	.50%	.1250%

Fees are based upon a client's total portfolio of accounts at the end of a calendar quarter and are automatically deducted from a client's account at the start of a new quarter. An informational memo billing statement is provided to the client on a quarterly basis. Management fees are non-negotiable, but MFA may discount a client's rate at its sole discretion.

All fees paid to MFA for Investment Management Services are separate from the fees and expenses charged to shareholders of mutual fund shares. Mutual funds pay advisory fees to their related investment advisers, which payments reduce the net asset value of the funds'

shares. For mutual funds in a client's portfolio, the client pays two levels of advisory fees, one directly to MFA for its management services and one indirectly to the managers of the funds held in their portfolios. In many cases, the client could invest in the same mutual fund without paying a fee to MFA but would not have benefited of fund selection and the ongoing advice, review and monitoring MFA provides. A complete explanation of the expenses charged by the mutual funds is contained in each mutual fund's prospectus. Clients are encouraged to read each fund prospectus carefully.

MFA reserves the right to change its fee schedules upon giving clients 60 days advance written notice. Investment management services may be terminated at will by written notice by either MFA or the client. If an agreement is terminated, current quarterly fees will be prorated for the length of time the management services were provided.

Please see Item 12 for a complete description of our brokerage practices which describes other fees that clients may be required to pay.

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

MFA does not charge any performance-based fees. All fees are disclosed above.

#### Item 7 - Types of Clients/Minimum Account Size

MFA makes advisory services available to individuals, profit sharing plans, trusts, estates, charitable organizations, corporations and other business entities.

MFA generally requires a minimum portfolio size of approximately \$250,000 for clients who opt for ongoing investment management services. The minimum account size may be waived due to special circumstances such as a pre-existing relationship, anticipated new assets, or as otherwise determined acceptable and at the discretion of MFA.

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

MFA makes judgments about each client's risk tolerance, goals and objectives, time horizon and tax status. Clients are interviewed and the information gathered is used to develop an asset allocation strategy that targets a client's desired rate of return, risk tolerance level, tax situation and time horizon.

MFA's process of developing an asset allocation plan for a client may include one or all of the following approaches:

STRATEGIC ASSET ALLOCATION - uses historical data (mean rates of return, standard deviations and co-variances) in an attempt to understand how the asset has performed and is likely to perform over long periods of time. The goal is not to "beat the market", but to establish a long-term investment strategy using the appropriate mix of assets for the client.

TACTICAL ASSET ALLOCATION - uses periodic assumptions regarding the performance and characteristics of the assets and/or the economy. This approach attempts to improve portfolio performance by making "mid-course" changes in the long-term strategy based on near-term expectations.

DYNAMIC ASSET ALLOCATION - involves changes in investor circumstances, which may lead to the modification of policies, objectives and/or risk tolerances. Resulting changes are intended to maintain equilibrium between the investor's policies and objectives and the asset allocation process.

MFA believes the economic environment and investment alternatives today are substantially different from those of the past, even the recent past. We believe that investors can no longer be myopic in their view of investments in so far as they restrict their analysis to domestic markets or investment vehicles. The traditionally domestic portfolio is clearly inadequate in today's internationally based economic and investment environment. Further, the complexity and volatility of today's investment world requires access to, and proficiency with superior analytical tools and data bases. We fully recognize that developing successful investment strategies and competing for investment capital depends on our ability to employ the most sophisticated analytical techniques.

Successful investors require the development of long-term plans arrived at in an objective and dispassionate manner. Too often, investment decisions are based on isolated, short-term considerations, without regard to the portfolio or the inter-relationships of the assets used. Our approach to portfolio management ignores the narrow approach of attempting to beat the performance of individual markets and applies a much broader method of devising strategies which will achieve investor's long-term goals and objectives within specified risk parameters. If studies show that 90% of future portfolio performance is determined by asset allocation policies, then it should be at the asset allocation and investment policy level that investors address issues of risk and return. To provide the services that our clients require today, we utilize integrated investment systems which include the computer models required to develop and manage a client's portfolio using an asset allocation approach based upon Modern Portfolio Theory concepts.

Since MFA believes that risk reduction is a key element to long-term investment success, asset allocation principals are a key part of MFA's overall approach in providing investment advice to clients. MFA is a firm that generally invests for the long-term. However, during severe market conditions, short-term defensive positions may be taken to reduce volatility in the overall portfolio.

MFA does not guarantee the effectiveness of any advice it provides. Losses can occur with any investment or investment strategy, including conservative investments and strategies. Clients are encouraged to discuss any questions with MFA that may arise regarding investment policies throughout the course of the engagement. MFA utilizes many sources of public information including financial news and research materials. Recommendations for the selection of mutual fund investments are based upon subscription services that provide analytical reports detailing a fund's performance and management style over long time periods ranked against funds in its peer group having the same investment goals. MFA does not make recommendations to buy individual stocks or bonds as part of its normal implementation process due to the lack of adequate diversification as compared to using mutual funds or exchange traded funds (ETFs).

#### Item 9 - Disciplinary Information

MFA does not have any disciplinary information to report.

#### Item 10 - Other Financial Industry Activities and Affiliations

Custodians such as Charles Schwab provide MFA with access to their institutional trading and custody services, which are typically not available to their retail investors. These services generally are available to independent investment advisors on an unsolicited basis, at no charge to them so long as a total of at least \$10 million of the advisor's clients' assets are maintained in accounts at the custodian, and are not otherwise contingent upon MFA committing any specific amount of business (assets in custody or trading). These services include brokerage, custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher initial investment.

For MFA's client accounts maintained at the Charles Schwab Co., there is no separate charge for custody, but Schwab may be compensated by account holders through commissions or other transaction related fees for securities trades that are executed through them or that settle into accounts held with them.

Schwab also makes available to MFA other products and services that benefit MFA, but may not benefit its clients' accounts. Some of these other products and services assist MFA in managing and administering clients' accounts. Thus, when choosing their custodial services, a conflict of interest exists since recommending other custodians could result in MFA incurring higher operating costs.

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

MFA adheres to the CFP Board's Standards of Professional Conduct, a set of documents outlining the ethical and practice standards for CFP® professionals. The Standards prominently require that CFP® professionals provide financial planning services at a fiduciary standard of care. This means CFP® professionals must provide financial planning services in the best interest of their clients.

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

MFA makes its Code of Ethics applicable to all persons who have access to confidential client records or to recommendations being made for client accounts. It is designed to prevent conflicts of interest between the financial interests of clients and the interests of the firm.

MFA may buy and sell the same securities as its clients from time to time. However, this may happen at different times under different market conditions and therefore trades will likely be made at different prices.

#### Item 12 - Brokerage Practices

MFA does not maintain custody of a client's assets. However, a client's assets must be maintained in an account at a "qualified custodian," generally a broker-dealer or a bank. MFA requests that its clients use Charles Schwab & Co., Inc. (Schwab), a registered broker-dealer, member SIPC, to maintain custody of a client's assets and to effect trades for their accounts. MFA is independently owned and operated and not affiliated with Schwab.

Schwab will hold a client's assets in a brokerage account and buy and sell securities when MFA directs them to do so. While we require that a client use Schwab as custodian/broker, a prospective client decides whether to do so or not. If a client chooses Schwab as their custodian/broker, accounts will be opened directly with Schwab by entering into an account agreement with Schwab; MFA assists the client with the paperwork to open an account whenever possible.

If a client requests the use of a different broker/custodian, MFA will generally not agree to manage the assets directly, but will generally advise the client for a flat fee or hourly rate at the request of the client. The advisory services would be defined within a Financial Planning Agreement rather than the Investment Advisory Agreement used for ongoing direct portfolio management. Note that not all advisors require clients to use a particular custodian/broker.

We seek to select 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)

- 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, ETFs, etc.)
- Availability of investment research and tools that assist us in making investment decisions
- Quality of services
- Competitiveness in the price of those services
- Reputation, financial strength and stability
- Prior service to us and our clients
- Availability of other products and services that benefit us, as discussed below (see “Products and Services Available to Us From Schwab)

For accounts maintained at Schwab, there are generally no separate custody charges to the client, but Schwab may be compensated by charging commissions and other fees on trades it executes or trades that settle into a client’s account. Most mutual funds bought and sold by MFA through Schwab’s trading platform are no load (i.e. no commission) or load-free (i.e. funds that have loads but are waived for investors when bought through Schwab’s Advisor platform) and do not charge a transaction fee. Certain fund companies that are available through Schwab’s Advisor platform, such as Vanguard and T. Rowe Price, do charge transaction fees.

In addition to commissions, Schwab charges clients a flat dollar amount as a “prime broker” or “trade away” fee for each trade executed by a different broker-dealer but where the securities sold are deposited (settled) into your Schwab account. These fees are in addition to the commissions a client pays to the executing broker-dealer.

Because of this, in order to minimize a client’s trading costs, we have Schwab execute most trades for a client’s account. MFA has determined that having Schwab execute most trades is consistent with our duty to seek “best execution” of a client’s trades. Best execution means the most favorable terms for a transaction based on all relevant factors, including those listed above.

Schwab Advisor Services (formerly called Schwab Institutional) is Schwab’s business serving independent investment advisory firms like MFA. They provide MFA and MFA’s clients 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 MFA manage or administer our clients' accounts, while others help us manage and grow our business. Schwab's support services are generally available on an unsolicited basis (MFA does not have to request them) and at no charge to MFA 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 MFA quarterly service fees of \$1,200.

A more detailed description of Schwab's support services is available upon request. But in general, some of these support services directly benefit the client (e.g. broad range of investment products, trade execution, custody and lower minimum initial investment amounts); some services benefit both MFA and our clients (e.g. Schwab research, third party research, technology that provides real-time access to client account data, pricing data and real-time market data and some services that generally benefit only MFA (e.g. educational conferences, compliance newsletters and practice management conferences).

MFA relies heavily on Schwab Advisor Services to support and facilitate the management of client accounts and as an informational source for best practice policies and procedures. MFA benefits from these services because we don't have to produce or purchase them, as long as our clients collectively maintain at least \$10 million of their assets in Schwab accounts. Beyond that, these services are not contingent upon MFA committing any specific amount of business to Schwab in trading commissions or assets in custody at Schwab.

The \$10 million minimum may give MFA an incentive to require that clients maintain their accounts at Schwab, based upon MFA's interest in receiving Schwab's services that benefit MFA's business rather than a client's interest in receiving the best value in custody services and the most favorable execution of a client's transactions. This is a potential conflict of interest. We believe, however, that MFA's selection of Schwab as custodian and broker is in the best interests of MFA's clients. MFA's selection is primarily supported by the scope, quality and price of Schwab's services and not Schwab's services that only benefit MFA.



### Item 13 - Review of Accounts and Reports

Investment management services involve frequent monitoring and review of portfolio assets by MFA. Specifically, Joseph R. Caravello, CFP, president and sole owner of MFA is responsible for conducting the investment research, development of investment strategies and policy statements and for conducting periodic reviews.

Portfolios are generally reviewed on a quarterly basis and annually reviewed to determine the need to rebalance individual portfolios to their target levels as defined in a client's Investment Policy Statement (IPS). The IPS is developed with the client at the start of the supervisory engagement and signed off by the client before assets are invested into the investments described in the IPS. The IPS also defines the assumed time horizon for the portfolio as well as an assessment of the estimated risk level of the portfolio as a whole.

Economic, financial and business data affecting client portfolios is reviewed daily. Portfolios are also reviewed at the time of new significant account deposits and during times of financial market volatility and changes in economic cycles.

Reviews entail analyzing securities, volatility, sensitivity to overall markets, economic changes, investment results and asset allocation, etc., to ensure investment strategy and expectations are structured to continue to meet client objectives.

Clients are obligated to promptly notify MFA of any significant changes in the client's financial status to assess whether MFA's investment strategies continue to meet the client's changing needs.

Clients receive standard monthly account statements from Charles Schwab Co., Inc. and trade confirmations as trades occur. MFA prepares quarterly portfolio reports for clients who have their portfolios managed by MFA on an ongoing basis. These reports include: Portfolio Statement, Portfolio Performance Summary Report, Asset Allocation Report and a memo Billing Statement. In January, in addition to those reports, two tax related reports are included: Realized Gains and Loss Report and an Income Report.

Clients are encouraged to carefully compare the information on MFA's reports to the custodian's statements to audit for any discrepancies. Any discrepancies are to be brought to the immediate attention of MFA.

#### Item 14 - Client Referrals and Other Compensation

MFA receives an economic benefit 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 (see Item 12 – Brokerage Practices). The availability to MFA of Schwab's products and services is not based upon MFA giving particular investment advice, such as buying particular securities for our clients.

MFA does not directly or indirectly pay any person or company any fees for referring clients. MFA does not receive any compensation for referring any clients to other advisors.

#### Item 15 - Custody

Under government regulations, MFA is deemed to have custody of your assets if, for example, you authorize MFA to instruct Schwab to deduct our advisory fees directly from your account or if you grant us authority to move money to another person's account. Schwab maintains actual custody of your assets. Schwab sends its monthly account statements directly to our clients. They are sent to the postal mailing address listed on the account or to the e-mail address on the account, if requested by the client. Clients are encouraged to carefully review these statements when received and to carefully compare them to the quarterly reports prepared and mailed to clients by MFA.

#### Item 16 - Investment Discretion

MFA clients customarily grant discretion to MFA to determine the securities and amount of securities to be bought and sold in client accounts. MFA's trading choices are limited by a client's Investment Policy Statement (IPS). A client approved IPS is completed prior to MFA making any trades in a client's account. The IPS limits the amount and type of securities (generally stock and bond mutual funds, stock and bond ETFs, CDs, treasuries and individual stocks and bonds—options are not used. Additionally, clients sign a limited power of attorney as part of Schwab's application process, granting MFA the authority to make the securities trades

in client accounts, disburse funds as requested by the client and to deduct MFA's management fees on a quarterly basis directly from designated client accounts.

#### Item 17 - Voting Proxies on Client Securities

MFA does not vote proxies on behalf of clients. MFA neither has nor accepts authority to vote proxies on behalf of clients. The responsibility to vote proxies rests with the client. Schwab is instructed to send all proxy statements and other shareholder communications.

#### Item 18 - Financial Information

MFA does not receive fees of more than \$1200 six months or more in advance, thus no financial statement for MFA is attached. MFA does not have any financial condition that is reasonably likely to impair its ability to meet its contracted commitment to any client. Neither MFA nor Joseph R. Caravello has been the subject of a bankruptcy petition at any time within the past 10 years or at any time before then.

#### Privacy Policy

##### Privacy Notice to Our Clients.

MFA strongly believes in protecting the confidentiality and security of information we collect about you. This notice describes our privacy policy and describes how we treat the information we receive about you.

##### Why We Collect And How We Use Information:

When we evaluate your request for our services, provide investment advice to you and process transactions for your account, you typically provide us with certain personal information necessary for us to provide advice and execute transactions. We may also use that information to offer you other services we provide which may meet your investment needs.

##### What Information We Collect:

The personal information we collect may include:

- Name and address

- Social Security or taxpayer identification number
- Assets
- Income
- Account balance and positions
- Investment activity
- Accounts at other institutions

#### How We Protect Information:

We do not sell your personal information to anyone. We treat information about current and former clients and their accounts in a confidential manner. We may access information and provide it to third parties only when completing a transaction at your request or providing our other services to you. At your request, we may disclose information to attorneys, accountants, lawyers, securities professionals and others to assist us, or them, in providing services to you. We may also share information with companies that perform services on our behalf, such as the companies that we hire to perform marketing or administrative services. Companies we may hire to provide support services are not allowed to use your personal information for their own purposes. We may make additional disclosures as permitted by law. We also maintain physical, electronic, and procedural safeguards to protect information. Our professional service representatives are required to comply with our established information confidentiality provisions.

#### Access to and Correction of Information.

Generally, upon your written request, we will make available information for your review. Information collected in connection with, or in anticipation of, any claim or legal proceeding will not be made available. If your personal information with us becomes inaccurate, or if you need to make a change to that information, please contact us at the number shown below so we can update our records.

#### Further Information.

For additional information regarding our privacy policy, please contact us by writing to us at  
Montgomery Financial Advisors LLC  
57 Livingston Drive  
Belle Mead, NJ 08502

**SCHEDULE 2.B - BROCHURE SUPPLEMENT**

**Joseph R. Caravello, CFP®**

**March 31, 2011**

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**This brochure supplement provides information about Joseph R. Caravello that supplements the Montgomery Financial Advisors LLC ("MFA") brochure. You should have received a copy of that brochure. Please contact Joseph Caravello if you did not receive MFA's brochure or if you have any questions about the contents of this supplement.**

**Additional information about Joseph R. Caravello is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## Item 2 - Educational Background and Business Experience

Mr. Caravello was born in 1946. He attended Brooklyn College and received a Bachelor of Arts degree in Economics in 1969. He completed all courses required for an MBA at Bernard Baruch College in Operations Research.

He has also earned the designation of Certified Financial Planner (CFP®) since 1993.

Mr. Caravello formed Montgomery Financial Advisors LLC in 1996 and is the President and Chief Investment Officer. He is also MFA's Chief Compliance Officer.

The CFP® certification is granted by Certified Financial Planners Board of Standards, Inc. The certification is voluntary; no federal or state law or regulation requires financial planners to hold CFP® certification. It is recognized in the United States and a number of other countries for its (1) high standard of professional education; (2) stringent code of conduct and standards of practice; and (3) ethical requirements that govern professional engagements with clients. To attain the right to use the CFP® marks, an individual must satisfactorily fulfill the following four requirements:

- Education - Complete an advanced college-level course of study addressing the financial planning subject areas that CFP Board's studies have determined as necessary for the competent and professional delivery of financial planning services, and attain a Bachelor's Degree from a regionally accredited United States college or university (or its equivalent from a foreign university). CFP Board's financial planning subject areas include insurance planning and risk management, employee benefits planning, investment planning, income tax planning, retirement planning, and estate planning.
- Examination - Pass the comprehensive CFP® Certification Examination. The examination, administered in 10 hours over a two-day period, includes case studies and client scenarios designed to test one's ability to correctly diagnose financial planning issues and apply one's knowledge of financial planning to real world circumstances.
- Experience - Complete at least three years of full-time financial planning-related experience (or equivalent, measured as 2,000 hours per year)

- Ethics - Agree to be bound by CFP Board's Standards of Professional Conduct, a set of documents outlining the ethical and practice standards for CFP® professionals.

Individual who become certified must complete the following ongoing education and ethics requirements in order to maintain the right to continue to use the CFP® marks:

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

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

### Item 3 - Disciplinary Information

Mr. Caravello does not have any disciplinary information to disclose. He has not: (a) been party to a criminal or civil action in a domestic, foreign or military court, (b) been party to an administrative proceeding before the SEC, any other federal regulatory agency, any state regulatory agency or any foreign financial regulatory authority; or (c) been party to a self-regulatory proceeding.

### Item 4 - Other Business Activities

Mr. Caravello spends about 5 hours or less per week as owner of a business products distributorship, the activities of which are unrelated to investment management or financial planning.

#### Item 5 - Additional Compensation

Mr. Caravello does not receive any additional economic benefit from third parties for providing advisory services.

#### Item 6 - Supervision

As MFA's sole owner and operator, Mr. Caravello is not directly supervised by another person.