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## **Form ADV Part 2A**

### **Brochure Cover Page**

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**This brochure provides information about the qualifications and business practices of John D. Rea d/b/a Cornerstone Financial Consulting. If you have any questions about the contents of this brochure, please contact us [john@cornerstonefin.com](mailto:john@cornerstonefin.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 John D. Rea d/b/a Cornerstone Financial Consulting also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

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### John D. Rea d/b/a Cornerstone Financial Consulting (SEC No. 801-67091)

#### **Item 4 Advisory Business**

Cornerstone Financial Consulting opened its doors on February 1, 2001 for the purpose of providing affordable financial advice to individuals, couples and families. John D. Rea is the sole owner and is responsible for all of the firm's activities. Cornerstone Financial Consulting provides two types of services: Financial Planning and Investment Advisory.

##### Financial Planning Services

Financial Planning services include advice on specific financial topics that are relevant to individuals, couples and families. These topics include:

1. budget and cash flow analysis,
2. investment planning,
3. education expense funding,
4. tax analysis and planning,
5. retirement planning,
6. insurance analysis and
7. estate planning.

We follow a six step process widely recognized by the financial planning community. The process is as follows:

1. establish and define the client-planner relationship,
2. gather client data including goals,
3. analyze and evaluate the client's financial status,
4. develop and present financial planning recommendations and alternatives,
5. assist the client in implementing the recommendations whenever possible and
6. monitor the financial planning recommendations and make recommendations where needed.

We meet with a client at the beginning of the process. There is no charge or obligation for the first meeting which usually lasts one to two hours. The purpose of the meeting is for us to learn about the client's needs and goals and to inform the client about our policies and procedures. We present an estimate of the fees for the work that we propose to do. The client does not have to make a commitment at the time of this meeting. If the client decides to proceed, we present the client with a written financial planning agreement that the client must sign and return. This agreement outlines the specific services we will perform and fees for those services. More details about the financial planning fees can be found in the next section "Fees and Compensation". We also request that the client complete a comprehensive questionnaire that asks for the client's goals, income, expenses, assets, insurance summary and miscellaneous questions about these items.

After receiving the client's information, we prepare an investment summary. This is a report which categorizes a client's investments by account and by the type of investment. The report also includes performance information. We use this report to analyze the quality of investments in the client's portfolio, the diversity within the portfolio and the overall allocation by asset class. After analyzing the

portfolio, we prepare recommendations if needed to change the portfolio and a report that shows the portfolio by investment as if the recommendations were implemented. There are other portfolios that would also be appropriate. Alternative portfolios are discussed with the client at the follow up meeting.

We use a computer program to analyze a client's personal financial situation. This program presents current cash flow and net worth statements. It also provides reports that help us analyze retirement spending projections, insurance needs and future estate taxes if applicable. Once the current information is entered into this program, alternative scenarios can be constructed to illustrate other potential outcomes. Some of these reports will be printed in advance of the follow up meeting. Additional scenarios can be presented during the follow up meeting if requested by the client.

At the conclusion of the follow up meeting, we will discuss with the client the required steps to implement the recommendations. We will also provide information on how we can assist in the implementation and the cost associated with our efforts.

### Investment Advisory Services

This type of engagement includes the following services:

1. recommendations for portfolio investments and an appropriate asset allocation,
2. assistance in implementing the recommendations,
3. preparation of an investment policy statement that is tailored to the client's situation,
4. continual oversight of the investments in the portfolio and the asset allocation,
5. quarterly reports that provide a summary of the capital markets and a personal review of the client's portfolio,
6. a minimum of one meeting per year so that we are aware of all relevant changes in the client's life,
7. unlimited phone calls and additional meetings if needed and
8. year-end review of the client's portfolio to consider tax issues.

To begin the relationship, we gather information using the same methods as mentioned above. This service begins with an initial one-hour meeting with the client at no charge. At the end of the meeting or within a few days, we will present the client with an estimate of the fees for the service. A more detailed description of the fees are in the Fees and Compensation section. We will prepare recommendations for investments in the portfolio and present them to the client. Once the client agrees with the recommendations, we prepare an action plan that lists the items that need to be done to implement the action plan. There may be items that the client has to perform and other items that Cornerstone Financial Consulting has to perform. We will watch over the process to make sure everything is completed.

### Investments

Clients are free to restrict investments from certain industries or activities. Clients can also request investments be directed towards specific industries or activities. Examples include requests to invest in socially responsible companies or the green energy industry (solar or wind power). Clients may restrict investments from companies that engage in gun manufacturing, gambling or the sale of alcoholic beverages. We will do our best to accommodate the client. We will also inform the client of the potential impact to the cost of managing the portfolio or the diversification of the portfolio.

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Cornerstone Financial Consulting recommends corporate bonds, United States government securities, municipal securities, individual stocks, mutual funds, exchange traded funds, certificates of deposit, fixed annuities and variable annuities for portfolios. We do not make any changes to a portfolio without the client's prior approval. Our management of a portfolio is considered non-discretionary. As of December 31, 2010, total Assets under management are \$48,685,220.

We customize each portfolio to meet the needs of the client. In the initial meeting and on an ongoing basis, we will determine a client's tolerance for risk. Through asking various questions, we try to find out how sensitive a client is to quick declines in values of their investments in a short-period of time. We determine the chances of attaining the client's financial goals using various levels of risk in their portfolio. The more sensitive a client is to quick drops in value and the less risk a client needs to take in order to attain the financial goals, the more conservative the portfolio needs to be. We will use these factors to make our recommendations. Clients may override these recommendations and choose a level of risk that they prefer.

Depending on the outcome of our evaluation of the client's sensitivity to risk and the probability of attaining the financial goals with a beginning portfolio value, we will recommend one of the following portfolio asset allocations:

- |                           |                                        |
|---------------------------|----------------------------------------|
| 1. Ultra-Aggressive       | 10% fixed income, 90% equity,          |
| 2. Aggressive             | 20% fixed income, 80% equity,          |
| 3. Moderate-Aggressive    | 30% fixed income, 70% equity,          |
| 4. Moderate               | 40% fixed income, 60% equity,          |
| 5. Moderate-Conservative  | 50% fixed income, 50% equity,          |
| 6. Conservative           | 60% fixed income, 40% equity,          |
| 7. Defensive-Conservative | 70% fixed income, 30% equity,          |
| 8. Ultra-Conservative     | 80% fixed income, 20% equity or        |
| 9. Cash                   | 100% cash and short-term fixed income. |

These asset allocations are broken up further into asset class segments such as large company equity, mid size company equity, small size company equity and international equity. The percentages of each segment will vary slightly between portfolios due to availability of funds in 401(k)s and client preferences. The percentages of the actual portfolio allocation and the recommended allocation can vary as much as 5% before being considered out of balance. If the actual portfolio allocation is out of balance, we will recommend changes that will bring the portfolio into balance. We review the portfolio allocation at the end of each calendar quarter.

### John D. Rea d/b/a Cornerstone Financial Consulting

#### **Item 5 Fees and Compensation**

##### Financial Planning Fees

Financial plans are based on an hourly fee of \$125. After the initial meeting with a client, we will present a Financial Planning Agreement which states the hourly fee and a maximum total cost of the service based upon the number of hours we expect to spend on the services listed in the agreement. The client will not be billed more than the maximum amount stated in the agreement even if we spend more hours than we estimated. The maximum fee will include a meeting with the client to present a written financial plan. If the client requests additional services be performed after the presentation of the financial plan, the client will be informed that there will be additional charges at \$125 per hour. These activities may include helping the client implement some or all of the recommendations, creating additional scenarios for retirement projections or answering new questions posed by the client.

The average financial plan takes about seven hours to complete but may take more time if the situation is more complicated. Therefore, financial plans can cost the client from \$500 to \$3,000 depending on the complexity of the client's financial situation. We will collect 50% upon signing of the Financial Planning Agreement and 50% after the financial plan has been presented. The client may terminate the agreement upon written notice to Cornerstone Financial Consulting. We will bill the client for the number of hours spent on the engagement. The client will receive a refund for any amount paid in excess of the amount billed. An accounting of the hours spent will be sent to the client. The hourly rate is not negotiable but the estimate of maximum hours the plan will take is negotiable. That would change the maximum cost of the financial planning engagement for the client as well as the scope of the engagement.

##### Investment Advisory Fees

Since every portfolio is customized to the clients personal financial situation, every portfolio is unique. Each portfolio has the potential for including multiple custodians, retirement plans, variable annuities, variable life insurance policies and other types of investments. Therefore, each portfolio will require a different level of complexity to manage. At the beginning of the relationship with the client, we will estimate the complexity of the client's portfolio to arrive at a fee for our services. We will present our fee proposal to the client. The fee is fixed for one year and is billed at the end of each calendar quarter. The fee is negotiable. If the client agrees with the fee proposal, he or she will sign an Investment Advisory Agreement and return it to Cornerstone Financial Consulting.

At the end of each year, we will review the amount we charge for managing a client's portfolio. If circumstances have changed, we will propose a modification to the fee. We will send a letter to the client that extends the original Investment Advisory Agreement. If the client agrees with the fee, he or she will sign the letter and return it to Cornerstone Financial Consulting.

The client may terminate the initial agreement within five (5) business days of signing the agreement and there will be no charge. After that, the client can terminate the agreement at any time by writing to Cornerstone Financial Consulting. The quarterly fee will be prorated by the number of days from the beginning of the quarter until the written notice is received.

We prefer that we deduct our clients' fees directly from an account held at Fidelity Investments. However, each client may elect to pay us directly after receiving an invoice. Invoices are sent out at the end of each calendar quarter along with the client's quarterly report. That is when the fees are deducted from the client's account if that is the payment method approved by the client.

In addition to the investment advisory fees paid to Cornerstone Financial Consulting, clients will incur other fees. Mutual funds and exchange traded funds have annual management fees that are deducted directly from the mutual funds assets. These fees can vary from .10% per year to over 2% per year depending on the fund. Mutual funds may also charge fees for balances that are below a minimum amount. Some funds charge a fee if it is sold within a certain period of time from the purchase date. Some custodians such as The Vanguard Group and Fidelity Investments charge a small transaction fee when clients buy specific funds. There are also brokerage fees in connection with trades of certain types of securities such as stocks and exchange traded funds. Additional information regarding brokerage fees can be found in the "Brokerage Practices" section.

Cornerstone Financial Consulting does not receive any remuneration based on the purchase or sales of investments. Our practice is to recommend funds that do not charge a sales load or fee. These are called "no-load" funds. Clients always have the option to purchase investment products that we recommend through other brokers or agents that are not affiliated with Cornerstone Financial Consulting.

**John D. Rea d/b/a Cornerstone Financial Consulting**

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

Cornerstone Financial Consulting does not charge any clients a performance-based fee. This section is not applicable.

**John D. Rea d/b/a Cornerstone Financial Consulting**

**Item 7 Types of Clients**

Currently Cornerstone Financial Consulting has fifty four investment advisory clients. Of that total, fifty two are individuals, one is a corporation and one is a trust. We do not have a minimum account size requirement for new clients. However, we would not enter into an Investment Advisory Agreement if the amount being managed would not be economical for the client.

Our clients include people from all stages of life. We have young adults entering the job market, middle aged parents mapping out an education payment plan, new retirees beginning to withdraw assets from savings and mature retirees looking for a retirement community with assisted living facilities. Assets under management for each client vary from eight thousand dollars to over five million dollars. The average amount under management per client is just over nine hundred thousand dollars.

**John D. Rea d/b/a Cornerstone Financial Consulting****Item 8 Methods of Analysis, Investment Strategies and Risk of Loss**

There are two broad categories of analyzing investment securities to help investors make investment decisions. They are: fundamental analysis and technical analysis. Fundamental analysis involves analyzing the characteristics of a company or mutual fund in order to estimate its value. Technical analysis looks only at the price movements or trends in the market. Cornerstone Financial Consulting only uses fundamental analysis. We do not use technical analysis or any other type of analysis.

As part of the fundamental analysis, we incorporate some of the concepts of Modern Portfolio Theory (MPT) in the construction of our client's portfolios. MPT was pioneered by Harry Markowitz in his paper "Portfolio Selection" published in 1952 by the Journal of Finance. The theory contains the view that investors are risk-averse and can construct portfolios to optimize or maximize expected investment return based on a given level of market risk, emphasizing that risk is an inherent part of higher reward. In order to configure the optimal mix of asset classes for different levels of risk, the covariance between asset classes have to be measured. Covariance is the degree to which returns on two risky assets move in tandem. A positive covariance means that asset returns move together. A negative covariance means returns move inversely.

We categorize each type of investment into a specific asset class. The broad asset classes are:

1. Fixed Income (includes cash and all types of bonds) (FI)
2. Large Cap Equity Growth (LG)
3. Large Cap Equity Value (LV)
4. Mid Cap Equity Growth (MG)
5. Mid Cap Equity Value (MV)
6. Small Cap Equity Growth SG)
7. Small Cap Equity Value (SV)
8. International Equity (IE)
9. Emerging Markets Equity (EM)
10. Other (includes real estate, commodities and currencies) (Other)

Depending on the time horizon for the use of the funds in a portfolio, the risk tolerance of the portfolio owner and beneficiary and the amount of risk needed to achieve a financial goal, the portfolio will be classified in one of the following portfolio allocations:

	<u>FI</u>	<u>LG</u>	<u>LV</u>	<u>MG</u>	<u>MV</u>	<u>SG</u>	<u>SV</u>	<u>IE</u>	<u>EM</u>	<u>Other</u>
1. Ultra Aggressive	10%	25%	25%	6%	6%	6%	6%	6%	10%	0%
2. Aggressive	20%	24%	24%	5%	5%	5%	5%	7%	5%	0%
3. Moderate Aggressive	30%	20%	20%	5%	5%	5%	5%	6%	0%	0%
4. Moderate	40%	18%	18%	4%	4%	5%	5%	6%	0%	0%
5. Moderate Conservative	50%	15%	15%	4%	4%	4%	4%	4%	0%	0%
6. Conservative	60%	12%	12%	3%	3%	3%	3%	4%	0%	0%
7. Defensive Conservative	70%	10%	10%	0%	0%	4%	4%	2%	0%	0%
8. Ultra Conservative	80%	6%	6%	0%	0%	3%	3%	2%	0%	0%
9. Cash	100%									

Each allocation may deviate from the percentage listed above by plus or minus five percent before the portfolio is considered unbalanced. If any of the percentages are more than five percent above or below the percentages listed in the table above, we will make recommendations to rebalance the portfolio. Rebalancing means that investments are sold in asset classes that are above the target percentage and then investments are purchased in asset classes that are under the target percentage.

### Investment Decision Criteria

Most often we recommend open-ended mutual funds and in a few cases exchange traded funds to create or change a portfolio of investments. A mutual fund is a pool of funds collected from many investors for the purpose of investing in securities. By pooling together funds from many investors, an investor benefits by having access to professional investment managers and immediate diversification. Open-ended mutual funds have shares that are sold directly to investors. The number of shares expand and contract depending on the demand for the fund. The fund will buy the shares back from the investor providing liquidity. A majority of mutual funds are open-ended. An Exchange-Traded Fund (ETF) is a security that tracks an index, commodity or a basket of assets like an index fund but trades like a stock on an exchange. ETFs can be traded throughout the day where as open-ended mutual funds are exchanged only at the end of each trading day. We review and monitor appropriate parameters for the mutual funds and exchange traded funds we recommend.

The parameters we use are:

- 1. Consistency of performance.** Mutual funds are identified that have experienced consistent above average performance with respect to their category peers. Cornerstone Financial Consulting identifies for further analysis those funds that have been ranked in the top 50 percentile of their category for the last three-year and five-year periods.
- 2. Persistency of Style.** One of the basic tenants of modern portfolio theory is to develop a portfolio using securities that are consistent in their investment style throughout the holding period. This portion of the analysis finds those mutual funds by reviewing their investment style history. The analysis also reviews consistency in rolling period returns and in bond quality ratings for fixed income instruments.
- 3. Risk-Adjusted Performance Data.** During this portion of the analysis, we look at past reviews and commentaries by analysts in various publications, portfolio composition versus peers, sector weightings, regional exposures, risk and return profiles and risk adjusted rates of returns. Standard Deviation, Sharpe Ratios, R-squared and Alphas are reviewed.
- 4. Operations.** The analysis reviews the manager, and the tenure of the manager, fees and expenses, shareholder report grade and any other factors that may be appropriate for the category under analysis. Mutual fund managers must have been in place for five years or longer. The mutual funds must be available for with no purchase fee (no-load) and at net asset value (NAV) to the client. Net asset value is the total value of all of the securities in the fund divided by the total number of shares outstanding.
- 5. Portfolio Risk.** This analysis reviews portfolio risk by reviewing portfolio statistics, turn over ratio, actual fund holdings, total number of holdings and the percentage of assets in the top ten holdings.

We rank the mutual funds in each category in accordance with the above formulae. The goal is to select at least two to three funds for inclusion in our approved list of funds for each category. Sometimes only one or none of the mutual funds make the grade. In those instances, appropriate index funds may be used. In other cases where fund options are limited (such as 401(k) and 403(b) plans), we recommend the funds that come closest. Our main source of information on mutual funds is from Morningstar. We also use information received from the companies that run the mutual funds.

### **Risks**

There is inherent risk in all types of investments although each investment has different types of risk and different degrees of risk. We define risk as the chance that an investment will lose value.

One risk in using our investment strategy is having an allocation in an asset class that goes down in value in a particular time period. We do not use market timing to make portfolio changes. That means that even if the equity markets have reached an all time high and the news media reports that the stock market looks like it will go down, we do not make changes in a portfolio allocation for that reason alone. For example the Ultra Aggressive allocation would lose more than the Ultra Conservative allocation if stocks in the United States and around the world go down.

Several risks are associated with fixed income securities. One risk is interest rate risk. Bond prices fall as interest rates rise. The longer the term of the bond and the lower the interest rate, the more the bond value will fall. Another risk is market risk. The demand and supply of particular kinds of bonds will affect the value. Default risk is the risk that the bond issuer will not be able to pay the interest or principal on the bond in a timely manner. Inflation risk is the risk that the rate of price increases in the economy deteriorates the returns associated with the bond. Inflation erodes the purchasing power of the interest and principal over time.

Stocks have greater overall risks because there is a higher probability of losing more value with stocks than bonds. When someone owns stock, they participate in the profits or losses of that company. There is no promise to pay the common stock shareholders a certain amount for the shares in the future. Stock values will change depending on the individual results of the company. Therefore each stock has specific company risk. That means the value will not only change as a result of a change in earnings but also because of the perception of how management is performing and other internal issues such as fraud or criminal activity. Stock values are also influenced by industry risk. That is the risk that problems may arise as a result of an industry wide problem such as lower prices for the sales of products made or the increase in raw materials used for making the product.

Commodities have price risk. Metals such as gold or silver do not produce income. Therefore any financial return is based on the price of the commodity at any point in time. That means the price will depend on the demand and supply for that commodity. That could cause the price to fluctuate greatly and could go down in value.

Cornerstone Financial Consulting recommends mutual funds for most of the investments used in a portfolio. When using a mutual fund, there is a risk that the manager may make poor decisions and purchase stocks or bonds that do not perform well. There is also a risk that the portfolio manager may be changed by the fund owner.

Exchange traded funds are fairly new. The investment community is unsure how these types of investments will behave when the market has large fluctuations during the day since these securities

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can be purchased and sold anytime the market is open. Large fluctuations can cause the pricing of exchange traded funds to be inaccurate which could make an investor lose value if sold during one of those periods.

**John D. Rea d/b/a Cornerstone Financial Consulting**

**Item 9 Disciplinary Information**

There are no disciplinary actions to report.

**John D. Rea d/b/a Cornerstone Financial Consulting**

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

John D. Rea, the sole owner of Cornerstone Financial Consulting, is a Certified Public Accountant and performs accounting, business consulting and tax services. These other services account for approximately 63% of his entire annual revenue. On average this requires about twelve to fifteen hours per week. This average will increase to twenty hours per week from January to April due to the preparation of tax returns. A majority of the tax returns he prepares are for investment management clients.

### John D. Rea d/b/a Cornerstone Financial Consulting

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

Our code of ethics policy is available to any client or prospective client upon request. Our policy is compliant with SEC rule 240A-1 which became effective on August 31, 2004.

The Code of Ethics sets out a standard of conduct which include the following core principles:

1. The interests of clients will be placed ahead of the firm's or any employee's own investment interests.
2. Employees are expected to conduct their personal securities transactions in accordance with the Personal Trading Policy and will strive to avoid any actual or perceived conflict of interest with the client. Employees with questions regarding the appearance of a conflict with a client should consult with the Chief Compliance Officer (John D. Rea) before taking action that may result in an actual conflict.
3. Employees will not take inappropriate advantage of their position with the firm.
4. Employees are expected to act in the best interest of each of our clients.
5. Employees are expected to comply with federal securities laws.

The policy protects clients material nonpublic information. Employees are expected to not divulge information regarding recommendations made by Cornerstone Financial Consulting or client securities holdings to any individual outside of the firm, except:

1. As necessary to complete transactions or account changes (for example, communications with brokers and custodians);
2. As necessary to maintain or service a client or his/her account (for example, communications with a client's accountant);
3. With various service providers providing administrative functions for Cornerstone Financial Consulting (such as our technology service provider), only after we have entered into a contractual agreement that prohibits the service provider from disclosing or using confidential information except as necessary to carry out its assigned responsibilities and only for that purpose; or
4. As permitted by law.

As noted above, employees are expected to conduct themselves with the utmost integrity and to avoid any actual or perceived conflict with our clients. In this spirit, the following are required of employees:

1. Gift Policy -Employees are prohibited from receiving (or giving) any gift, gratuity, hospitality or other offering of more than de minimis value from any person or entity doing business with Cornerstone Financial Consulting. This gift policy generally excludes items or events where the employee has reason to believe there is a legitimate business purpose.
2. Service as Director for an Outside Company - Any employee wishing to serve as director for an outside company (public or private) must first seek the approval of John D. Rea. In reviewing the request, he will determine whether such service is consistent with the interests of the firm and our clients.
3. Outside Business Interests - Any employee wishing to engage in business activities outside of Cornerstone Financial Consulting must first seek approval from John D. Rea and, if requested, provide

periodic reports to him summarizing those outside business activities.

4. New and Annual Employee Acknowledgment - New employees must acknowledge they have read and they understand and agree to comply with this Code of Ethics and Personal Trading Policy. All employees are required to acknowledge as such annually in connection with the firm's annual policy manual acknowledgment process.

### Personal Trading Policy

Employees must consider the following before placing a trade:

1. Whether the amount or nature of the transaction will affect the price or market for the security;
2. Whether the employee will benefit from purchases or sales being made for any client;
3. Whether the transaction is likely to harm any client; and
4. Whether there is an appearance or suggestion of impropriety.

### Personal Trading Restrictions

Employees are expected to purchase or sell a security for their personal accounts only after trading of that same security has been completed in client accounts. Personal accounts of the employee include all accounts for family members living within the employee's household and accounts over which the employee has authority even though the account owner does not live within the same household as the employee.

1. Any employee contemplating a trade to the contrary must consult with John D. Rea before conducting his or her personal trade.
2. It is the employee's responsibility to know which securities are being traded by the firm. The employee should consult with John D. Rea to determine whether a security is an appropriate purchase by the employee.

### Initial Public Offerings and Private Placements

All employees are required to obtain approval from John D. Rea before investing in an initial public offering ("IPO") or a private placement, defined as an equity position within a nonpublic company.

### Reports of Personal Securities

Employees are required to report securities transactions and holdings for all accounts in which the employee has a direct or indirect beneficial ownership interest. This includes personal securities information of any family member living within the same household as the employee. Employees must submit a quarterly transactions report, and holdings report.

All employees are required to report promptly any violation of this policy to John D. Rea (including the discovery of any violation committed by another employee). Examples of items that should be reported include but are not limited to: noncompliance with federal securities laws, conduct that is harmful to clients and purchasing securities contrary to the Personal Trading Policy. Such violations should be reported to John D. Rea on a timely basis.

Employees are encouraged to report any violations or apparent violations. Such reports by employees will not be viewed negatively by firm management, even if the reportable event, upon further review, is determined to not be a violation and John D. Rea determined the employee reported such apparent violation in good faith.

Upon discovering a violation of this policy, John D. Rea may impose any sanctions as deemed

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appropriate, including disgorgement of profits, reversal of the trade or suspension of trading privileges. For additional information on general sanctions for violation of the firm's policies, refer to our Sanctions Policy.

John D. Rea and employees of Cornerstone Financial Consulting may buy and sell open-ended mutual funds that we recommend to our clients without prior notice to any client.

**John D. Rea d/b/a Cornerstone Financial Consulting****Item 12 Brokerage Practices**

## Factors in choosing a broker to recommend

When recommending a brokerage custodian to our clients, we consider cost, accessibility to securities and service. Using that criteria, most of the time we recommend Fidelity Investments and The Vanguard Group. Both of these companies offer mutual fund and brokerage accounts at no charge. Both companies offer mutual funds managed by their own company as well as mutual funds managed by other companies. They include funds that require no transaction fees to buy or sell the fund and funds that do require a transaction fee. Both offer the ability to purchase individual bonds, stocks, exchange traded funds and closed-end funds. These companies charge a commission for the purchase or sale of some exchange traded funds, stocks and closed-ended mutual funds for less than \$15 for 1,000 shares.

## Research and Other Soft Dollar Benefits

Fidelity Investments provides a special service to Registered Investment Advisors. We are enrolled with this service. Fidelity Investments provides a software platform to allow advisors to view and trade on client accounts on a daily basis. A small team of client service representatives is available for help when dealing with clients' accounts. Research information and conference calls with fund managers are also available. We use the research information for all of our clients whether they have accounts at Fidelity Investments or not. Some fees that would normally be charged to clients who own a retail account are not charged for purchases made in accounts associated through our relationship with Fidelity Investments.

Other than these services, Fidelity Investments does not provide any other type of benefit or remuneration to us for recommending clients to them. There is a conflict of interest in that it is easier for us to use Fidelity Investments since they provide these services. It is possible that there are brokerage services that will charge less for each transaction than Fidelity Investments.

The Vanguard Group does not offer special services for registered investment advisors.

We do not require clients to use Fidelity Investments or The Vanguard Group. If a client chooses to use another brokerage firm, they may receive less favorable prices. Therefore, we may not be able to execute the "best effort" status which may cost the client more money. We do not aggregate transactions because we do not buy and sell individual securities, except for rare occasions. In those cases we are buying or selling a few shares of one stock for one client and not making a positional change across the board. Mutual fund purchases cannot be aggregated.

**John D. Rea d/b/a Cornerstone Financial Consulting**

**Item 13 Review of Accounts**

All of our clients' portfolios are reviewed on a calendar quarterly basis. As part of the review, we compile a summary of each portfolio by investment. We then look at the year-to-date, one and three year returns as well as the one and three-year Morningstar category ranks for each investment. Morningstar is a company that compiles information on stocks, mutual funds and exchange traded funds. The portfolio is also summarized by asset class and compared to the targets agreed upon with the client. After making this review, we write a letter to each client summarizing the findings of the review and the recommendations. If the actual asset allocation has a category or categories more or less than five percent compared to the targets, we will make a recommendation to rebalance the portfolio. Poor performance of an investment or a change in a client's situation may also prompt us to make recommendations for change.

We will review a client's portfolio in advance of an annual or specially called meeting. Besides a quarterly review, we strive to meet with a client at least once a year in person or by phone to review the portfolio and to discuss any possible changes in a client's goals or tolerance for risk.

All reviews are performed by John D. Rea.

**John D. Rea d/b/a Cornerstone Financial Consulting**

**Item 14 Client Referrals and Other Compensation**

Cornerstone Financial Consulting or any of its employees do not receive any compensation for referring clients nor does Cornerstone Financial Consulting compensate anyone for referring clients to us.

**John D. Rea d/b/a Cornerstone Financial Consulting**

**Item 15 Custody**

Cornerstone Financial Consulting does not have custody of client funds or securities.

**John D. Rea d/b/a Cornerstone Financial Consulting**

**Item 16 Investment Discretion**

Cornerstone Financial Consulting does not accept discretionary authority to manage securities on behalf of clients. We only manage non-discretionary accounts. All trades are discussed with and approved by the client prior to execution.

**John D. Rea d/b/a Cornerstone Financial Consulting**

**Item 17 Voting Client Securities**

Cornerstone Financial Consulting does not have authority to vote client proxies or other solicitations. Clients will receive these documents directly from their custodians. If clients have questions regarding how they should vote, they are free to contact us. At that time we will discuss the votes that we would cast and the reasons for that vote. We will also discuss the potential conflict of interest between our recommendation and their best interest if that is ascertainable.

**John D. Rea d/b/a Cornerstone Financial Consulting**

**Item 18 Financial Information**

This information is not required.

**John D. Rea d/b/a Cornerstone Financial Consulting**

**Form ADV Part 2B**  
**Brochure Supplement**

John D. Rea

605 Floral Vale Blvd.  
Yardley, PA 19067-5528

Phone: (215)860-2234

This brochure supplement provides information about John D. Rea that supplements the John D. Rea d/b/a Cornerstone Financial Consulting brochure. You should have received a copy of that brochure. Please contact John D. Rea if you did not receive John D. Rea d/b/a Cornerstone Financial Consulting's brochure or if you have any questions about the contents of this supplement.

**John D. Rea d/b/a Cornerstone Financial Consulting**

**Educational Background and Business Experience**

Date of birth May 9, 1956

BS Accounting, The Pennsylvania State University 1978 with distinction

MBA, Lehigh University, 1985

Accredited Certified Financial Planner (CFP®), 1988

Certified Public Accountant (CPA) licensed in PA, 1992

**Recent Business Background**

Owner of Cornerstone Financial Consulting, February 2001 to present

**Minimum Qualifications for Accredited Certified Financial Planner Designation**

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

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

To attain the right to use the CFP® marks, an individual must satisfactorily fulfill the following requirements:

- Education – Complete an advanced college-level course of study addressing the financial planning subject areas that CFP Board’s studies have determined as necessary for the competent and professional delivery of financial planning services, and attain a Bachelor’s Degree from a regionally accredited United States college or university (or its equivalent from a foreign university). CFP Board’s financial planning subject areas include insurance planning and risk management, employee benefits planning, investment planning, income tax planning, retirement planning, and estate planning;
  - Examination – Pass the comprehensive CFP® Certification Examination. The examination, administered in 10 hours over a two-day period, includes case studies and client scenarios designed to test one’s ability to correctly diagnose financial planning issues and apply one’s knowledge of financial planning to real world circumstances;
  - Experience – Complete at least three years of full-time financial planning-related experience (or the equivalent, measured as 2,000 hours per year); and
  - Ethics – Agree to be bound by CFP Board’s Standards of Professional Conduct, a set of documents outlining the ethical and practice standards for CFP® professionals.
- Individuals who become certified must complete the following ongoing education and ethics requirements in order to maintain the right to continue to use the CFP® marks:

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

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

### **Minimum Qualifications for Certified Public Accountant License**

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

**John D. Rea d/b/a Cornerstone Financial Consulting**

**Disciplinary Information**

There have been no disciplinary actions.

**John D. Rea d/b/a Cornerstone Financial Consulting**

**Other Business Activities**

John D. Rea provides business consulting, accounting services and tax preparation services to clients on an ongoing basis. This activity represents approximately sixty three percent of his total revenue and requires approximately twelve to fifteen hours per week. This represents a conflict of interest when he is providing these services out of the office.

**John D. Rea d/b/a Cornerstone Financial Consulting**

**Additional Compensation**

There are no other forms of compensation that would present a conflict of interest.

**John D. Rea d/b/a Cornerstone Financial Consulting**

**Supervision**

As the owner of Cornerstone Financial Consulting, John D. Rea has to provide self-supervision. Any complaints, problems or praises should be brought immediately to his attention. If the matter is not satisfactorily rectified, a complaint can be lodged with the SEC.

**John D. Rea d/b/a Cornerstone Financial Consulting**

**Form ADV Part 2B**  
**Brochure Supplement**

James R. Rea

605 Floral Vale Blvd.  
Yardley, PA 19067-5528

Phone: (215)860-2234

This brochure supplement provides information about James R. Rea that supplements the John D. Rea d/b/a Cornerstone Financial Consulting brochure. You should have received a copy of that brochure. Please contact John D. Rea if you did not receive John D. Rea d/b/a Cornerstone Financial Consulting's brochure or if you have any questions about the contents of this supplement.

**John D. Rea d/b/a Cornerstone Financial Consulting**

**Educational Background and Business Experience**

BS, The Pennsylvania State University, 1975

MBA courses, Texas A and I University, Kingsville, TX 1982 - 1984

CFP Courses College for Financial Planning, Aurora, CO 2003 - 2008

Passed Certified Financial Planning Certification Exam, July 2008

Financial Planner, Cornerstone Financial Consulting, November 2009 - Present, Part time

Financial Planning Assistant, Cornerstone Financial Consulting 2003 - 2009, Part time

Series 65 - Uniform Investment Advisor Law Examination, December 2009

**John D. Rea d/b/a Cornerstone Financial Consulting**

**Disciplinary Information**

There have been no disciplinary actions.

**John D. Rea d/b/a Cornerstone Financial Consulting**

**Other Business Activities**

James R. Rea has been a commercial airline pilot from 1984 to present. This occupation requires approximately thirty two hours per week and accounts for almost all of his annual income. This represents a conflict of interest when he is away on a flight and is not available. However, John D. Rea is available in his absence.

**John D. Rea d/b/a Cornerstone Financial Consulting**

**Additional Compensation**

There is no other additional compensation.

**John D. Rea d/b/a Cornerstone Financial Consulting**

**Supervision**

All of James R. Rea's client correspondence and recommendations are reviewed and approved by John D. Rea. Any complaints, problems or praises should be given to John D. Rea.