

# Disclosure Brochure

April 11, 2011

## **Northeast Financial Group, Inc.**

*a Registered Investment Adviser*

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This brochure provides information about the qualifications and business practices of Northeast Financial Group, Inc. (hereinafter "NEFG" or the "firm"). If you have any questions about the contents of this brochure, please contact Robert L. Hackenberg, Jr. at (570) 688-9898. 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 Northeast Financial Group, Inc. is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Northeast Financial Group, Inc. is an SEC registered investment adviser. Registration does not imply any level of skill or training.

## Item 2. Material Changes

This Item discusses only the material changes that have occurred since NEFG's last annual update dated April 8, 2010. NEFG does not have any material changes to disclose in this Item.

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### Supervised Person Brochure Supplements

## Item 4. Advisory Business

Originally founded in 1987, NEFG has been in business as an independent registered investment adviser since July 1998. From the onset, NEFG has maintained its commitment to providing comprehensive planning and investment services to the firm's clients, which NEFG believes has led to the firm's continued growth throughout complex times in the financial markets. It is NEFG's focus to provide its clients with a wide array of investment options and unvarying support in an effort to enable them to meet their individual planning objectives. Robert L. Hackenberg, Jr. and Josh R. Laychock are the principal owners of NEFG. As of February 28, 2011, the firm had \$54,099,000 in assets under management, of which \$52,591,000 were managed on a discretionary basis and \$1,508,000 were managed on a non-discretionary basis.

Prior to engaging NEFG to provide any of the foregoing investment advisory services, the client is required to enter into one or more written agreements with NEFG setting forth the terms and conditions under which NEFG renders its services (collectively the "*Agreement*").

This Disclosure Brochure describes the business of NEFG. Certain sections will also describe the activities of *Supervised Persons*. *Supervised Persons* are any of NEFG's officers, partners, directors (or other persons occupying a similar status or performing similar functions), or employees, or any other person who provides investment advice on NEFG's behalf and is subject to NEFG's supervision or control.

### Financial Planning and Consulting Services

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NEFG offers clients a broad range of comprehensive financial planning and consulting services, addressing a variety of matters. These services, which are offered on both a standalone and ongoing basis, may address any or all of the following:

- Financial plan maintenance;
- Estate planning;
- Cash flow analysis;
- Tax review;
- Retirement planning;
- Education funding;
- Estate planning;
- Risk management;
- Long-term care assessment; and
- Disability and survivorship planning.

In performing its services, NEFG is not required to verify any information received from the client or from the client's other professionals (e.g., attorney, accountant, etc.) and is expressly authorized to rely on such information. NEFG may recommend the services of itself, its *Supervised Persons* in their individual capacities as registered representatives of a broker-dealer, and/or other professionals to implement its recommendations. Clients are advised that a conflict of interest exists if NEFG recommends its own services. The client is under no obligation to act upon any of the recommendations made by NEFG under

a financial planning or consulting engagement or to engage the services of any such recommended professional, including NEFG itself. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any of NEFG's recommendations. Clients are advised that it remains their responsibility to promptly notify NEFG if there is ever any change in their financial situation or investment objectives for the purpose of reviewing, evaluating, or revising NEFG's previous recommendations and/or services.

### **Investment Management Services**

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NEFG manages clients' investment portfolios on a discretionary or non-discretionary basis.

NEFG primarily allocates clients' investment management assets among mutual funds, exchange-traded funds ("ETFs"), individual debt and equity securities, options, and/or *Independent Managers* (as defined below), as well as the securities components of variable annuities and variable life insurance contracts in accordance with the investment objectives of the client. NEFG also provides advice about any type of legacy position or investment otherwise held in its clients' portfolios.

NEFG also may render non-discretionary investment management services to clients relative to variable life/annuity products that they may own, their individual employer-sponsored retirement plans, and/or 529 plans or other products that may not be held by the client's primary custodian. In so doing, NEFG either directs or recommends the allocation of client assets among the various investment options that are available with the product. Client assets are maintained at the specific insurance company or custodian designated by the product.

NEFG tailors its advisory services to the individual needs of clients. NEFG consults with clients initially and on an ongoing basis to determine risk tolerance, time horizon and other factors that may impact the clients' investment needs. NEFG ensures that clients' investments are suitable for their investment needs, goals, objectives and risk tolerance.

Clients are advised to promptly notify NEFG if there are changes in their financial situation or investment objectives or if they wish to impose any reasonable restrictions upon NEFG's management services. Clients may impose reasonable restrictions or mandates on the management of their account (e.g., require that a portion of their assets be invested in socially responsible funds) if, in NEFG's sole discretion, the conditions will not materially impact the performance of a portfolio strategy or prove overly burdensome to its management efforts.

### **Use of Independent Managers**

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As mentioned above, NEFG recommends that certain clients authorize the active discretionary management of a portion of their assets by and/or among certain independent investment managers ("*Independent Managers*"), based upon the stated investment objectives of the client. The terms and conditions under which the client engages the *Independent Managers* are set forth in a separate written

agreement between NEFG or the client and the designated *Independent Managers*. NEFG renders services to the client relative to the discretionary and/or non-discretionary selection or recommendation of *Independent Managers*. NEFG also monitors and reviews the account performance and the client's investment objectives. NEFG receives an annual advisory fee which is based upon a percentage of the market value of the assets being managed by the designated *Independent Managers*.

When recommending or selecting an *Independent Manager* for a client, NEFG reviews information about the *Independent Manager* such as its disclosure brochure and/or material supplied by the *Independent Manager* or independent third parties for a description of the *Independent Manager's* investment strategies, past performance and risk results to the extent available. Factors that NEFG considers in recommending an *Independent Manager* include the client's stated investment objectives, management style, performance, reputation, financial strength, reporting, pricing, and research. The investment management fees charged by the designated *Independent Managers*, together with the fees charged by the corresponding designated broker-dealer/custodian of the client's assets, may be exclusive of, and in addition to, NEFG's investment advisory fee set forth above. As discussed above, the client may incur additional fees than those charged by NEFG, the designated *Independent Managers*, and corresponding broker-dealer and custodian.

In addition to NEFG's written disclosure brochure, the client also receives the written disclosure brochure of the designated *Independent Managers*. Certain *Independent Managers* may impose more restrictive account requirements and varying billing practices than NEFG. In such instances, NEFG may alter its corresponding account requirements and/or billing practices to accommodate those of the *Independent Managers*.

### **Pension Consulting Services**

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NEFG provides comprehensive consulting services to pension plans. In general, NEFG assists the engaging client in designing and implementing a plan. The plan design lists the criteria for the selection of investment vehicles and the procedures and timing intervals for monitoring investment performance. NEFG also reviews and recommends various investment options, primarily consisting of mutual funds and ETFs, in an effort to implement an investment platform designed to further the client's stated objectives.

As part of these services, the firm may provide pension plan participants with educational support services and investment workshops, addressing general financial and plan related matters. NEFG also offers individual enrollment meetings, whereby the firm provides employees with individualized assistance on asset allocations within their respective retirement accounts. These services are rendered pursuant to specialized engagements which are customized to accommodate the needs and objectives of the engaging party.

## Item 5. Fees and Compensation

NEFG offers its services on a fee basis, which may include hourly and/or fixed fees, as well as fees based upon assets under management. Certain of NEFG's *Supervised Persons*, in their individual capacities, may also offer securities brokerage services and insurance products under a commission arrangement.

### Financial Planning and Consulting Fees

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NEFG charges a fixed fee and/or hourly fee to provide financial planning and consulting services. The fees for the initial development of a financial plan generally range from \$500 to \$10,000 on a fixed fee basis and/or \$155 on an hourly basis. Subsequent consulting services or updates to an existing financial plan are generally provided for a fixed fee, which generally ranges from \$100 to \$3,000. These fees are negotiable, but are largely determined by the level and scope of the services and the professional engaged to render them.

Prior to engaging NEFG to provide financial planning and/or consulting services, the client is required to enter into a written agreement with NEFG setting forth the terms and conditions of the engagement. Generally, NEFG requires one-half of the financial planning or consulting fee (estimated hourly or fixed) payable upon entering the written agreement. The balance is generally due upon delivery of the financial plan or completion of the agreed upon services.

### Investment Management Fees

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NEFG provides investment management services for an annual fee based upon a percentage of assets under management. NEFG's annual fee is prorated and charged quarterly, in advance, based upon the market value of the assets being managed by NEFG on the last day of the previous quarter. The annual fee varies and is largely determined by the size and composition of a client's investment portfolio, as follows:

<b><u>PORTFOLIO VALUE</u></b>	<b><u>BASE FEE</u></b>
Up to \$250,000	1.25%
\$250,001 - \$500,000	1.00%
\$500,001 - \$750,000	0.90%
\$750,001 - \$1,000,000	0.85%
\$1,000,001 - \$3,000,000	0.80%
\$3,000,000 - \$5,000,000	0.70%
\$5,000,001 - \$7,000,000	0.65%
\$7,000,001 - \$10,000,000	0.60%
Above \$10,000,000	Negotiable

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## Variable Annuity / Life Portfolios

<u>PORTFOLIO VALUE</u>	<u>BASE FEE</u>
Up to \$1,000,000	0.70%
\$1,000,001 - \$3,000,000	0.60%
\$3,000,001 - \$5,000,000	0.50%
Above \$5,000,000	0.30%

## Fixed Portfolios

<u>PORTFOLIO VALUE</u>	<u>BASE FEE</u>
Up to \$1,000,000	0.55%
\$1,000,001 - \$3,000,000	0.50%
\$3,000,001 - \$5,000,000	0.45%
Above \$5,000,000	0.35%

NEFG's annual fee is exclusive of, and in addition to brokerage commissions, transaction fees, and other related costs and expenses which are incurred by the client. NEFG does not, however, receive any portion of these commissions, fees, and costs.

## **Pension Consulting Fees**

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NEFG provides pension consulting services for an annual asset-based fee. This fee is prorated and charged monthly, in advance, based upon the market value of the assets on the last day of the month during which the services were provided. The consulting fee is negotiable, but generally ranges from 25 to 125 basis points (i.e., 0.25% to 1.25%) of the assets on which NEFG is advising upon, depending upon the size and type of the plan and the services to be provided under the engagement.

## **Fee Discretion**

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NEFG, in its sole discretion, may negotiate to charge a lesser fee based upon certain criteria (i.e., anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, *pro bono* activities, etc.).



## **Fees Charged by Financial Institutions**

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As further discussed in response to Item 12 (below), NEFG generally recommends that clients utilize the brokerage and clearing services of Charles Schwab & Co., Inc. ("*Schwab*") for investment management accounts.

NEFG may only implement its investment management recommendations after the client has arranged for and furnished NEFG with all information and authorization regarding accounts with appropriate financial institutions. Financial institutions include, but are not limited to, *Schwab*, any other broker-dealer recommended by NEFG, broker-dealer directed by the client, trust companies, banks etc. (collectively referred to herein as the "*Financial Institutions*").

Clients may incur certain charges imposed by the *Financial Institutions* and other third parties such as fees charged by *Independent Managers* (as defined below), custodial fees, charges imposed directly by a mutual fund or ETF in the account, which are disclosed in the fund's prospectus (e.g., fund management fees and other fund expenses), deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Additionally, for assets outside of any wrap fee programs, clients may incur brokerage commissions and transaction fees. Such charges, fees and commissions are exclusive of and in addition to NEFG's fee.

## **Fee Debit**

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NEFG's *Agreement* and the separate agreement with any *Financial Institutions* may authorize NEFG or *Independent Managers* to debit the client's account for the amount of NEFG's fee and to directly remit that management fee to NEFG or the *Independent Managers*. Any *Financial Institutions* recommended by NEFG have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to NEFG. Alternatively, clients may elect to have NEFG send an invoice for payment.

## **Fees for Management During Partial Period of Service**

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For the initial period of investment management services, the fees are calculated on a *pro rata* basis.

The *Agreement* between NEFG and the client will continue in effect until terminated by either party pursuant to the terms of the *Agreement*. NEFG's fees are prorated through the date of termination and any remaining balance is charged or refunded to the client, as appropriate.

Clients may make additions to and withdrawals from their account at any time, subject to NEFG's right to terminate an account. Additions may be in cash or securities provided that NEFG reserves the right to liquidate any transferred securities or decline to accept particular securities into a client's account. Clients may withdraw account assets on notice to NEFG, subject to the usual and customary securities settlement procedures. However, NEFG designs its portfolios as long-term investments and the withdrawal of assets may impair the achievement of a client's investment objectives. NEFG may consult

with its clients about the options and ramifications of transferring securities. However, clients are advised that when transferred securities are liquidated, they are subject to transaction fees, fees assessed at the mutual fund level (i.e. contingent deferred sales charge) and/or tax ramifications.

If assets are deposited into or withdrawn from an account after the inception of a month or quarter, the fee payable with respect to such assets will not be adjusted or prorated based on the number of days remaining in the month or quarter.

### **Commissions or Sales Charges for Recommendations of Securities**

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Clients can engage certain persons associated with NEFG (but not NEFG) to render securities brokerage services under a commission arrangement. Clients are under no obligation to engage such persons and may choose brokers or agents not affiliated with NEFG. Under this arrangement, clients may implement securities transactions through certain of NEFG's *Supervised Persons* in their respective individual capacities as registered representatives of Leigh Baldwin & Co., LLC ("*LB*"), an SEC registered broker-dealer and member of FINRA, or another fully-disclosed broker-dealer ("*another BD*"). *LB* or *another BD* may charge brokerage commissions to effect these securities transactions and thereafter, a portion of these commissions may be paid by *LB* or *another BD* to such *Supervised Persons*. Prior to effecting any transactions clients are required to enter into a new account agreement with *LB* or *another BD*. The brokerage commissions charged by *LB* or *another BD* may be higher or lower than those charged by other broker-dealers. In addition, certain of NEFG's *Supervised Persons* may also receive ongoing 12b-1 fees for mutual fund purchases from the mutual fund company during the period that the client maintains the mutual fund investment. NEFG also recommends clients invest in certain no-load funds.

A conflict of interest exists to the extent that NEFG recommends the purchase of securities where NEFG's *Supervised Persons* receive commissions or other additional compensation as a result of NEFG's recommendations. NEFG has procedures in place to ensure that any recommendations made by such *Supervised Persons* are in the best interest of clients.

For accounts covered by ERISA (and such others that NEFG, in its sole discretion deems appropriate), NEFG provides its investment advisory services on a fee-offset basis. In this scenario, NEFG may offset its fees by an amount equal to the aggregate commissions and 12b-1 fees earned by NEFG's *Supervised Persons* in their individual capacities as registered representatives of *LB* or *another BD*.

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

NEFG does not provide any services for performance-based fees. Performance-based fees are those based on a share of capital gains on or capital appreciation of the assets of a client.

## Item 7. Types of Clients

NEFG provides its services to individuals, pension and profit sharing plans, trusts, estates, charitable organizations, corporations and business entities.

### **Minimum Annual Fee**

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As a condition for starting and maintaining an investment management relationship, the firm generally imposes a minimum annual fee of \$1,000. The minimum fee may have the effect of making NEFG's services impractical for certain investors, particularly those with portfolios with less than \$50,000 in assets to be managed. NEFG, in its sole discretion, may elect to waive its minimum annual fee based upon certain criteria, such as future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, pre-existing client, account retention, and *pro bono* activities.

### **Minimums Imposed By Independent Managers**

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Certain *Independent Managers* may impose more restrictive account requirements and varying billing practices than NEFG. In such instances, NEFG may alter its corresponding account requirements and/or billing practices to accommodate those of the *Independent Managers*.

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

### Methods of Analysis

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The firm analyzes investment options and portfolio allocations pursuant to an asset allocation methodology. NEFG's asset allocation analysis involves a strategy in which NEFG seeks to balance risk and reward by apportioning portfolio assets among various asset classes according to an individual's objectives, time horizon and risk tolerance. While NEFG believes that this diversification affords clients an added level of protection from overexposure to any one asset class, it also ensures that portfolios are subjected to a variety of asset classes that may prove volatile during a given period.

In selecting the individual securities and portfolio managers that, in the firm's opinion, provide the best upside exposure in any given asset class, NEFG may examine a variety of indicators derived from a range of fundamental, technical and/or cyclical analytical metrics.

*Fundamental analysis* involves an assessment of the fundamental financial condition and competitive position of a company. NEFG analyzes the financial condition, capabilities of management, earnings, new products and services, as well as the company's markets and position amongst its competitors in order to determine the recommendations made to clients. The primary risk in using fundamental analysis is that while the overall health and position of a company may be good, market conditions may negatively impact the security.

*Technical analysis* involves an examination of past market data rather than specific company data in determining the recommendations made to clients. Technical analysis may involve the use of charts to identify market patterns and trends which may be based on investor sentiment rather than the fundamentals of the company. The primary risk in using technical analysis is that spotting historical trends may not help to predict such trends in the future. Even if the trend will eventually reoccur, there is no guarantee that NEFG will be able to accurately predict such a reoccurrence.

*Cyclical analysis* is similar to technical analysis in that it involves the examination of market conditions at a macro (entire market/economy) or micro (company specific) level, rather than the overall fundamental analysis of the health of the particular company that NEFG is recommending. The risks with cyclical analysis are similar to those of technical analysis.

### Investment Strategies

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As stated above, NEFG selects securities based on asset allocation decisions, rather than decisions about the attractiveness of individual stocks or bonds. Specifically, the firm seeks to determine the mix of funds, common stocks, bonds and money market instruments (i.e., cash investments) that offers the best combination of potential risk and return. NEFG's aim is to maximize the long-term total returns of its client's investment portfolios. At any given time, the firm may allocate all, a portion, or none of its clients'

assets to large-capitalization U.S. stocks, long-term U.S. Treasury bonds, or money market instruments, respectively.

In each of its clients' portfolios, NEFG utilizes a mix of individual securities, mutual funds, ETFs and/or cash equivalents based on the client's individual needs, objectives, time horizon, cash flow constraints and risk profile. The firm may employ a passive and/or tactical investment approach within a given portfolio or weighting. NEFG may further utilize active fund managers for any investment alternatives or investment category contained within the portfolio.

### **Risks of Loss**

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#### *Mutual Funds and Exchange Traded Funds (ETFs)*

An investment in a mutual fund or ETF involves risk, including the loss of principal. Mutual fund and ETF shareholders are necessarily subject to the risks stemming from the individual issuers of the fund's underlying portfolio securities. Such shareholders are also liable for taxes on any fund-level capital gains, as mutual funds and ETFs are required by law to distribute capital gains in the event they sell securities for a profit that cannot be offset by a corresponding loss.

Shares of mutual funds are generally distributed and redeemed on an ongoing basis by the fund itself or a broker acting on its behalf. The trading price at which a share is transacted is equal to a fund's stated daily per share net asset value ("NAV"), plus any shareholders fees (e.g., sales loads, purchase fees, redemption fees). The per share NAV of a mutual fund is calculated at the end of each business day, although the actual NAV fluctuates with intraday changes to the market value of the fund's holdings. The trading prices of a mutual fund's shares may differ significantly from the NAV during periods of market volatility, which may, among other factors, lead to the mutual fund's shares trading at a premium or discount to NAV.

Shares of ETFs are listed on securities exchanges and transacted at negotiated prices in the secondary market. Generally, ETF shares trade at or near their most recent NAV, which is generally calculated at least once daily for indexed-based ETFs and more frequently for actively managed ETFs. However, certain inefficiencies may cause the shares to trade at a premium or discount to their pro rata NAV. There is also no guarantee that an active secondary market for such shares will develop or continue to exist. Generally, an ETF only redeems shares when aggregated as creation units (usually 50,000 shares or more). Therefore, if a liquid secondary market ceases to exist for shares of a particular ETF, a shareholder may have no way to dispose of such shares.

#### *Market Risks*

The profitability of a significant portion of NEFG's recommendations may depend to a great extent upon correctly assessing the future course of price movements of stocks and bonds. There can be no assurance that NEFG will be able to predict those price movements accurately.

### *Use of Independent Managers*

NEFG may recommend the use of *Independent Managers* for certain clients. NEFG will continue to do ongoing due diligence of such managers, but such recommendations relies, to a great extent, on the *Independent Managers* ability to successfully implement their investment strategy. In addition, NEFG does not have the ability to supervise the *Independent Managers* on a day-to-day basis other than as previously described in response to Item 4, above.

### *General Risk of Loss*

Investing in securities involves the risk of loss. Clients should be prepared to bear such loss.

### **Item 9. Disciplinary Information**

NEFG is required to disclose the facts of any legal or disciplinary events that are material to a client's evaluation of its advisory business or the integrity of management. NEFG does not have any required disclosures to this Item.



## Item 10. Other Financial Industry Activities and Affiliations

NEFG is required to disclose any relationship or arrangement that is material to its advisory business or to its clients with certain related persons.

### Registered Representatives of Broker Dealer

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Certain of NEFG's *Supervised Persons* are registered representatives of *LB* or *another BD*. These arrangements are discussed in further detail in response to Item 5 (above) and Item 12 (below).

### Registration as Insurance Agency

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NEFG is a duly licensed insurance agency. Additionally, certain of NEFG's *Supervised Persons*, in their individual capacities, are licensed insurance agents with various insurance companies, and in such capacity, may recommend, on a fully-disclosed basis, the purchase of certain insurance products. A conflict of interest exists to the extent that NEFG or its *Supervised Persons* recommend the purchase of insurance products where NEFG or its *Supervised Persons* receive insurance commissions or other additional compensation.

### Other Business Relationship

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NEFG maintains a relationship with McConkey & Co. Insurance and Benefits ("*McConkey*"), whereby certain employees of *McConkey* are also registered as investment adviser representatives of NEFG. Under this arrangement, certain of NEFG's *Supervised Persons*, in their individual capacities, may recommend, on a fully disclosed basis, the services and business lines of *McConkey* and receive compensation as a result of the referral. In the same respect, certain employees of *McConkey*, who are also duly registered as investment adviser representatives of NEFG, may recommend, on a fully disclosed basis, the advisory services of NEFG and receive compensation as a result of the referral.

There exists a conflict of interest to the extent that NEFG or *McConkey* recommend the services of the other and certain of NEFG's *Supervised Persons* receive additional compensation by virtue of this arrangement. The firm's referrals arrangements are discussed further in response to Item 14 (below).

## Item 11. Code of Ethics

NEFG and persons associated with NEFG ("Associated Persons") are permitted to buy or sell securities that it also recommends to clients consistent with NEFG's policies and procedures.

NEFG has adopted a code of ethics that sets forth the standards of conduct expected of its associated persons and requires compliance with applicable securities laws ("*Code of Ethics*"). In accordance with Section 204A of the Investment Advisers Act of 1940 (the "Advisers Act"), its *Code of Ethics* contains written policies reasonably designed to prevent the unlawful use of material non-public information by NEFG or any of its associated persons. The *Code of Ethics* also requires that certain of NEFG's personnel (called "*Access Persons*") report their personal securities holdings and transactions and obtain pre-approval of certain investments such as initial public offerings and limited offerings.

Unless specifically permitted in NEFG's *Code of Ethics*, none of NEFG's *Access Persons* may effect for themselves or for their immediate family (i.e., spouse, minor children, and adults living in the same household as the *Access Person*) any transactions in a security which is being actively purchased or sold, or is being considered for purchase or sale, on behalf of any of NEFG's clients.

When NEFG is purchasing or considering for purchase any security on behalf of a client, no *Access Person* may effect a transaction in that security prior to the completion of the purchase or until a decision has been made not to purchase such security. Similarly, when NEFG is selling or considering the sale of any security on behalf of a client, no *Access Person* may effect a transaction in that security prior to the completion of the sale or until a decision has been made not to sell such security. These requirements are not applicable to: (i) direct obligations of the Government of the United States; (ii) money market instruments, bankers' acceptances, bank certificates of deposit, commercial paper, repurchase agreements and other high quality short-term debt instruments, including repurchase agreements; (iii) shares issued by mutual funds or money market funds; and (iv) shares issued by unit investment trusts that are invested exclusively in one or more mutual funds.

Clients and prospective clients may contact NEFG to request a copy of its *Code of Ethics*.

## Item 12. Brokerage Practices

As discussed above, in Item 5, NEFG generally recommends that clients utilize the brokerage and clearing services of *Schwab*.

Factors which NEFG considers in recommending *Schwab* or any other broker-dealer to clients include their respective financial strength, reputation, execution, pricing, research and service. *Schwab* enables NEFG to obtain many mutual funds without transaction charges and other securities at nominal transaction charges. The commissions and/or transaction fees charged by *Schwab* may be higher or lower than those charged by other *Financial Institutions*.

The commissions paid by NEFG's clients comply with NEFG's duty to obtain "best execution." Clients may pay commissions that are higher than another qualified *Financial Institution* might charge to effect the same transaction where NEFG determines that the commissions are reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a *Financial Institution's* services, including among others, the value of research provided, execution capability, commission rates, and responsiveness. NEFG seeks competitive rates but may not necessarily obtain the lowest possible commission rates for client transactions.

NEFG periodically and systematically reviews its policies and procedures regarding its recommendation of *Financial Institutions* in light of its duty to obtain best execution.

The client may direct NEFG in writing to use a particular *Financial Institution* to execute some or all transactions for the client. In that case, the client will negotiate terms and arrangements for the account with that *Financial Institution*, and NEFG will not seek better execution services or prices from other *Financial Institutions* or be able to "batch" client transactions for execution through other *Financial Institutions* with orders for other accounts managed by NEFG (as described below). As a result, the client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case. Subject to its duty of best execution, NEFG may decline a client's request to direct brokerage if, in NEFG's sole discretion, such directed brokerage arrangements would result in additional operational difficulties.

Transactions for each client generally will be effected independently, unless NEFG decides to purchase or sell the same securities for several clients at approximately the same time. NEFG may (but is not obligated to) combine or "batch" such orders to obtain best execution, to negotiate more favorable commission rates, or to allocate equitably among NEFG's clients differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will generally be averaged as to price and allocated among NEFG's clients pro rata to the purchase and sale orders placed for each client on any given day. To the extent that NEFG determines to aggregate client orders for the purchase or sale of securities, including

securities in which NEFG's *Supervised Persons* may invest, NEFG generally does so in accordance with applicable rules promulgated under the Advisers Act and no-action guidance provided by the staff of the U.S. Securities and Exchange Commission. NEFG does not receive any additional compensation or remuneration as a result of the aggregation. In the event that NEFG determines that a prorated allocation is not appropriate under the particular circumstances, the allocation will be made based upon other relevant factors, which may include: (i) when only a small percentage of the order is executed, shares may be allocated to the account with the smallest order or the smallest position or to an account that is out of line with respect to security or sector weightings relative to other portfolios, with similar mandates; (ii) allocations may be given to one account when one account has limitations in its investment guidelines which prohibit it from purchasing other securities which are expected to produce similar investment results and can be purchased by other accounts; (iii) if an account reaches an investment guideline limit and cannot participate in an allocation, shares may be reallocated to other accounts (this may be due to unforeseen changes in an account's assets after an order is placed); (iv) with respect to sale allocations, allocations may be given to accounts low in cash; (v) in cases when a pro rata allocation of a potential execution would result in a *de minimis* allocation in one or more accounts, NEFG may exclude the account(s) from the allocation; the transactions may be executed on a pro rata basis among the remaining accounts; or (vi) in cases where a small proportion of an order is executed in all accounts, shares may be allocated to one or more accounts on a random basis.

Consistent with obtaining best execution, brokerage transactions may be directed to certain broker-dealers in return for investment research products and/or services which assist NEFG in its investment decision-making process. Such research generally will be used to service all of NEFG's clients, but brokerage commissions paid by one client may be used to pay for research that is not used in managing that client's portfolio. The receipt of investment research products and/or services as well as the allocation of the benefit of such investment research products and/or services poses a conflict of interest because NEFG does not have to produce or pay for the products or services.

### **Commissions or Sales Charges for Recommendations of Securities**

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As discussed above, certain *Supervised Persons*, in their respective individual capacities, are registered representatives of *LB or another BD*. These *Supervised Persons* are subject to FINRA Rule 3040 which restricts registered representatives from conducting securities transactions away from their broker-dealer unless *LB or another BD* provides written consent. Therefore, clients are advised that certain *Supervised Persons* may be restricted to conducting securities transactions through *LB or another BD* unless they first secure written consent from *LB or another BD* to execute securities transactions through a different broker-dealer. Absent such written consent or separation from *LB or another BD*, these *Supervised Persons* are prohibited from executing securities transactions through any broker-dealer other than *LB or another BD* under *LB's or another BD's* internal supervisory policies. NEFG is cognizant of its duty to obtain best execution and has implemented policies and procedures reasonably designed in such pursuit.

## Software and Support Provided by Financial Institutions

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NEFG may receive from *Schwab*, without cost to NEFG, computer software and related systems support, which allow NEFG to better monitor client accounts maintained at *Schwab*. NEFG may receive the software and related support without cost because NEFG renders investment management services to clients that maintain assets at *Schwab*. The software and related systems support may benefit NEFG, but not its clients directly. In fulfilling its duties to its clients, NEFG endeavors at all times to put the interests of its clients first. Clients should be aware, however, that NEFG's receipt of economic benefits from a broker-dealer creates a conflict of interest since these benefits may influence NEFG's choice of broker-dealer over another broker-dealer that does not furnish similar software, systems support, or services.

Additionally, NEFG may receive the following benefits from *Schwab* through its Schwab Institutional division: receipt of duplicate client confirmations and bundled duplicate statements; access to a trading desk that exclusively services the Schwab Institutional participants; access to block trading which provides the ability to aggregate securities transactions and then allocate the appropriate shares to client accounts; and access to an electronic communication network for client order entry and account information.

## Item 13. Review of Accounts

### Account Reviews

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For those clients to whom NEFG provides investment management services, NEFG monitors those portfolios as part of an ongoing process while regular account reviews are conducted on at least a quarterly basis. For those clients to whom NEFG provides financial planning and/or consulting services, reviews are conducted on an “as needed” basis. Such reviews are conducted by one or more of the Principals of the firm, Robert L Hackenberg, Jr and/or Josh R. Laychock. All investment advisory clients are encouraged to discuss their needs, goals, and objectives with NEFG and to keep NEFG informed of any changes thereto. NEFG contacts ongoing investment advisory clients at least annually to review its previous services and/or recommendations and to discuss the impact resulting from any changes in the client’s financial situation and/or investment objectives.

### Account Statements and General Reports

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Unless otherwise agreed upon, clients are provided with transaction confirmation notices and regular summary account statements directly from the broker-dealer or custodian for the client accounts. Those clients to whom NEFG provides investment advisory services also receive reports from NEFG that may include such relevant account and/or market-related information, such as an inventory of account holdings and account performance. Such reports are furnished on a semi-annual basis to clients with assets under management in excess of \$1,000,000 and not less than annually to all other clients. Clients should compare the account statements they receive from their custodian with those they receive from NEFG.

### Financial Planning and Consulting Reports

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Those clients to whom NEFG provides financial planning and/or consulting services will receive reports from NEFG summarizing its analysis and conclusions as requested by the client or otherwise agreed to in writing by NEFG.

## Item 14. Client Referrals and Other Compensation

### **Economic Benefits**

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NEFG is required to disclose any relationship or arrangement where it receives an economic benefit from a third party (non-client) for providing advisory services. NEFG may receive economic benefits from non-clients for providing advice or other advisory services to clients. This type of relationship poses a conflict of interest and any such relationship is disclosed in response to Item 12 (above).

### **Client Referrals**

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NEFG is required to disclose any direct or indirect compensation that it provides for client referrals.

If a client is introduced to NEFG by either an unaffiliated or an affiliated solicitor, NEFG may pay that solicitor a referral fee in accordance with the requirements of Rule 206(4)-3 of the Advisers Act and any corresponding state securities law requirements. Any such referral fee is paid solely from NEFG's investment management fee, and does not result in any additional charge to the client. If the client is introduced to NEFG by an unaffiliated solicitor, the solicitor provides the client with a copy of NEFG's written disclosure brochure which meets the requirements of Rule 204-3 of the Advisers Act and a copy of the solicitor's disclosure statement containing the terms and conditions of the solicitation arrangement including compensation. Any affiliated solicitor of NEFG discloses the nature of his/her relationship to prospective clients at the time of the solicitation and will provide all prospective clients with a copy of NEFG's written disclosure brochure at the time of the solicitation.

### Item 15. Custody

NEFG's *Agreement* and/or the separate agreement with any *Financial Institution* may authorize NEFG through such *Financial Institution* to debit the client's account for the amount of NEFG's fee and to directly remit that management fee to NEFG in accordance with applicable custody rules.

The *Financial Institutions* recommended by NEFG have agreed to send a statement to the client, at least quarterly, indicating all amounts disbursed from the account including the amount of management fees paid directly to NEFG. In addition, as discussed in Item 13, NEFG also sends periodic supplemental reports to clients. Clients should carefully review the statements sent directly by the *Financial Institutions* and compare them to those received from NEFG.



## Item 16. Investment Discretion

NEFG may be given the authority to exercise discretion on behalf of clients. NEFG is considered to exercise investment discretion over a client's account if it can effect transactions for the client without first having to seek the client's consent. NEFG is given this authority through a power-of-attorney included in the agreement between NEFG and the client. Clients may request a limitation on this authority (such as certain securities not to be bought or sold). NEFG takes discretion over the following activities:

- The securities to be purchased or sold;
- The amount of securities to be purchased or sold;
- When transactions are made; and
- The *Independent Managers* to be hired or fired.

## Item 17. Voting Client Securities

NEFG may vote client securities (proxies) on behalf of its clients. When NEFG accepts such responsibility, it will only cast proxy votes in a manner consistent with the best interest of its clients. Absent special circumstances, which are fully- described in NEFG's Proxy Voting Policies and Procedures, all proxies will be voted consistent with guidelines established and described in NEFG's Proxy Voting Policies and Procedures, as they may be amended from time-to-time. Clients may contact NEFG to request information about how NEFG voted proxies for that client's securities or to get a copy of NEFG's Proxy Voting Policies and Procedures. A brief summary of NEFG's Proxy Voting Policies and Procedures is as follows:

- NEFG has formed a Proxy Voting Committee that will be responsible for monitoring corporate actions, making voting decisions in the best interest of clients, and ensuring that proxies are submitted in a timely manner.
- The Proxy Voting Committee will generally vote proxies according to NEFG's then current Proxy Voting Guidelines. The Proxy Voting Guidelines include many specific examples of voting decisions for the types of proposals that are most frequently presented, including: composition of the board of directors; approval of independent auditors; management and director compensation; anti-takeover mechanisms and related issues; changes to capital structure; corporate and social policy issues; and issues involving mutual funds.
- Although the Proxy Voting Guidelines are followed as a general policy, certain issues are considered on a case-by-case basis based on the relevant facts and circumstances. Since corporate governance issues are diverse and continually evolving, NEFG devotes an appropriate amount of time and resources to monitor these changes.
- Clients cannot direct NEFG's vote on a particular solicitation but can revoke NEFG's authority to vote proxies.

In situations where there may be a conflict of interest in the voting of proxies due to business or personal relationships that NEFG maintains with persons having an interest in the outcome of certain votes, NEFG takes appropriate steps to ensure that its proxy voting decisions are made in the best interest of its clients and are not the product of such conflict.

### **Item 18. Financial Information**

NEFG does not require or solicit the prepayment of more than \$1,200 in fees six months or more in advance. In addition, NEFG is required to disclose any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients. NEFG has no disclosures pursuant to this Item.

## **Northeast Financial Group, Inc.**

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Prepared by:



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