

# **Financial Planning Advisors, Inc.**

**1600 Washington Avenue**

**Alton, IL 62002**

**(618) 474-0000**

**3/01/2010**

This Brochure provides information about the qualifications and business practices of Financial Planning Advisors, Inc. If you have any questions about the contents of this Brochure, please contact us at (618) 474-0000 or via email at [jeff@howtoretire.net](mailto:jeff@howtoretire.net). 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. Financial Planning Advisors, Inc. is a Registered Investment Adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information that you may use to determine whether to hire or retain them. Additional information about Financial Planning Advisors, Inc. is also available on the SEC's web site at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Material Changes

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There were no material changes to the business in 2010.

On July 28, 2010, the United State Securities and Exchange Commission published “Amendments to Form ADV” which amends the disclosure document describing our business practices and qualifications that we provide to our clients per SEC Rules. This Brochure, dated 3/01/2011, is a new document that has been prepared according to the SEC’s new requirements and rules. This Brochure is materially different in structure and requires certain new information that our previous brochure did not provide.

In the future, this section of the brochure will discuss only the specific material changes that were made to the Brochure and will provide you with a summary of all material changes that have occurred since the last filing of this Brochure with the SEC. This section will also identify the date of our last annual brochure update.

In the past we have offered or delivered information about our qualifications and business practices to our clients on at least an annual basis. Pursuant to new SEC Rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business’ fiscal year which is December 31st. We will provide other ongoing disclosure information about material changes as necessary. We will also provide you with a new Brochure, as necessary, based on changes or new information. Currently, our Brochure may be requested at any time, without charge, by contacting Jeff Hicks at (618) 474-000.

Additional information about Financial Planning Advisors, Inc. is also available via the SEC’s web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by using a unique identifying number, known as a CRD number. The CRD number for Financial Planning Advisors, Inc. is 122625. The SEC’s web site also provides information about any persons affiliated with Financial Planning Advisors, Inc. who are registered, or are required to be registered, as investment adviser representatives of Financial Planning Advisors, Inc.

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## Advisory Business Introduction

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Financial Planning Advisors, Inc. ("FPA") is a Registered Investment Adviser ("Adviser"), which offers financial planning advice that often includes investment, estate, insurance, business and education analysis, as well as other financial services to clients. We are registered through the State of Illinois Securities Department and are regulated by the United States Securities and Exchange Commission ("SEC"), the Illinois Securities Department, Missouri Securities Division and the Texas State Securities Board.

We provide financial and investment advice through investment adviser representatives ("advisor") associated with us. These individuals are appropriately licensed, qualified, and authorized to provide advisory services on our behalf. In addition, all advisors are required to have a college degree and/or substantive investment related experience.

FPA was founded in 1994 by Alfred Jeffrey Hicks ("Jeff Hicks") who serves as President and Chief Compliance Officer. FPA provides financial planning and portfolio management services to individuals, high net worth individuals, trusts, estates, corporate profit-sharing plans, charitable organizations, foundations, endowments, corporations, and small businesses. We are committed to the precept that by placing the clients' interests first, we will add value to the process of creating wealth and earn the client's trust and respect. We value long term relationships with our clients whom we regard as strategic partners in our business.

## Services

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We offer and provide financial planning services, including the evaluation and recommendation of investment programs and strategies, to help you plan and achieve your financial goals and objectives. Our goal is to assist you in making wise decisions about your financial resources.

As of 12/31/2010, we provided asset management services for 887 accounts with total assets under management of \$48,905,539.00. The breakdown between discretionary versus non- discretionary is as follows:

Authority	Number of Accounts	Assets Under Management
Discretionary	590	\$ 47,325,805.00
Non-Discretionary	126	\$ 1,579,734.00
Total	716	\$48,905,539.00

The majority of accounts are managed on a discretionary basis which means, our clients have given us the authority to determine the following without first contacting them for their consent:

- Securities to be bought or sold for your account

- Amount of securities to be bought or sold for your account

If you have not given us discretion, we will not transact any business in your account without your permission. However, trading may be required to meet initial allocation targets, after substantial cash deposits that require investment allocation, and/or after a request for a withdrawal that requires liquidation of a position. Additionally, your account may be rebalanced or reallocated periodically in order to reestablish the targeted percentages of your initial asset allocation. This rebalancing or reallocation will occur on the schedule we have determined together. You will be responsible for any and all tax consequences resulting from any rebalancing or reallocation of the account. We are not tax professionals and do not give tax advice. However, we will work with your tax professionals to assist you with tax planning. You will have the opportunity to meet with us periodically to review the assets in your account.

## **1. Financial Planning**

Components of our financial planning process may include services such as estate planning, business planning, tax planning, retirement planning, insurance planning, educational planning, planning for special needs dependents, as well as investment portfolio planning. Financial planning is a panoramic relationship that incorporates many different aspects of your financial status into an overall plan that meets your goals and objectives. The financial planning relationship consists of face-to-face meetings and may include ad hoc meetings with your other advisors (attorneys, accountants, etc.).

In performing financial planning services, we typically examine and analyze your overall financial situation, which may include such issues as taxes, insurance needs, overall debt, credit, business planning, retirement savings and reviewing your current investment program. Generally, our services will include:

- general discussion of taxes and inflation regarding financial security
- summary of assumptions
- details of client objectives, personal risk tolerance and attitudes
- recommendations for the attainment of client's objectives, factors considered in calculation, and steps to achieve financial goals

Our services may focus on all or only one of these areas depending upon the scope of our engagement with you. We will deliver to you a written plan which will serve as the roadmap to your financial future.

You must agree to provide the information and documentation we request regarding your income, investments, taxes, insurance, estate plan, etc. You also must agree to discuss your investment objectives, needs and goals, and to keep us informed of any changes. We do not verify any information obtained from you, your attorney, accountant or other professionals.

If you engage us to perform these services, you will receive a written agreement detailing the services, fees, terms and conditions of the relationship. You will also receive this Brochure. You are under no obligation to implement recommendations through us. You may implement your financial plan through any financial organization of your choice.

We obtain information from a wide variety of publicly available sources. We do not have any inside private information about any investments that are recommended. All recommendations developed by us are based upon our professional judgment. We cannot guarantee the results of any of our recommendations. You must decide what advice to follow.

## **2. Asset Management**

As part of our asset management process, you engage us to assist you in developing a personalized asset allocation program and custom-tailored portfolio designed to meet your unique investment objectives. Asset management is the professional management of securities (stocks, bonds, mutual funds and other securities) and assets (e.g., real estate) in order to meet your specified investment goals. The investments in the portfolio account may include mutual funds, stocks, bonds, equity options, futures, etc. We do not impose a minimum dollar value on the size of account we will accept. However, under certain circumstances we may require at least \$250,000 assets under management.

We will meet with you to discuss your financial circumstances, investment goals and objectives, and to determine your risk tolerance. We will ask you to provide statements summarizing current investments, income and other earnings, recent tax returns, retirement plan information, other assets and liabilities, wills and trusts, insurance policies, and other pertinent information. Based on the information you share with us, we will analyze your situation and recommend an appropriate asset allocation or investment strategy. You may be provided with a targeted strategic allocation of assets by class, as well as limited investment advice. Our recommendations and ongoing management is based upon your investment goals and objectives, risk tolerance, and the investment portfolio you have selected. We will monitor the account(s), trade as necessary, and communicate regularly with you. Your personal circumstances shall be monitored during periodic and annual reviews. These reviews may be conducted in person, via online resources, by telephone conference, and/or via a written inquiry/questionnaire. We will work with you on an ongoing basis to evaluate your asset allocation as well as rebalance your portfolio to keep it in line with your goals as necessary. We will be reasonably available to help you with questions about your account. You will also receive our Advisory Agreement which describes what services you will receive and what fees you will be charged.

We will:

- Review your present financial situation
- Monitor and track assets under management
- Provide portfolio statements, periodic reports, asset allocation statements as needed
- Advise on asset selection
- Determine market divisions through asset allocation models
- Build a risk management profile for you
- Assist you in setting and monitoring goals and objectives
- Provide personal consultations as necessary upon your request or as needed

You must notify us promptly when your financial situation, goals, objectives, or needs change.

You shall have the ability to impose reasonable restrictions on the management of your account, including the ability to instruct us not to purchase certain mutual funds, stocks or other securities. These restrictions may be a specific company security, industry sector, asset class, or any other restriction you request. Please be advised that certain restrictions may limit our ability to perform our services on your behalf.

Under certain conditions, securities from custodial accounts maintained with custodians that limit our authority to direct transactions on your behalf maybe transferred into an advisory account with a new custodian. However, we may also recommend that you sell any security we believe is not suitable for the current recommended investment strategy. You are responsible for any taxable events in these instances. We do not provide tax advice or tax management services. You should always consult with your tax advisor for specific tax advice. Certain assumptions may be made with respect to interest and inflation rates and the use of past trends and performance of the market and economy. Past performance is not an indication of future performance.

Your account can be managed in a tax aware manner; however, we do not provide tax advice or tax management services.

If you select us to implement our recommendations, we may require you to open a custodial account(s). The funds in the custodial account will be held in a separate account, in your name, at an independent custodian, not with us. We often recommend National Financial Services, LLC (NFS) to be the custodian of your account. In limited circumstances, we may recommend transactions be implemented through Triad Advisors, Inc. (Triad), an investment broker dealer. Triad also utilizes NFS as their custodian. You will enter into a separate custodial agreement with the custodian. This agreement, among other things, authorizes the custodian to take instructions from us regarding all investment decisions for your account. We will select the securities bought and sold and the amount to be bought and sold, within the parameters of the objectives and risk tolerance of your account. The custodian will effect transactions, deliver securities, make payments and do what we instruct. You are notified of any purchases or sales through trade confirmations and monthly statements that are provided by the Custodian. You will at all times maintain full and complete ownership rights to all assets held in your account. You will be enabled to withdraw securities or cash. You will be required to vote proxies. FPA does not vote proxies.

You will receive, at least quarterly, a statement containing a description of all the activity in your account from the custodian. This statement lists the total value at the start of the month, itemizes all transaction activity during the month, and lists the types, amounts, and total value of securities held as of the end of the month. Your statement may be in either printed or electronic form based upon your preferences.

We may also provide you with periodic performance statements that are supplemental to statements provided by the custodian. These statements give you additional feedback regarding loss or gain, educate you about our long-term investment philosophy, and describe any changes in current strategy and allocation along with the reasons for making these changes.



We are available during normal business hours either by telephone, fax, email, or in person by appointment to answer your questions.

### **3. Other Services**

Our advisors may be licensed to sell life, disability, health, annuity, and long-term care insurance. You may utilize any agent or agency of your choice for product purchases. Compensation for such product purchases will not be received by FPA. All compensation is remitted directly to the agent or agency.

Our advisors may be licensed to sell securities through Triad. Advisors receive compensation directly from Triad in such circumstances where investment transactions are implemented through their services. FPA does not receive compensation from Triad.

We provide advice regarding employment contracts, business valuations, employee contract compensation structures, debt reduction, personal budgeting and calculations for finance/refinance payment decisions.

We offer fixed-fee project-based services including portfolio reviews, financial planning and second opinion analysis of your existing portfolio. We also offer a fixed fee agreement where financial planning and investment advisory services (including limited implementation services) are made available contiguously for the duration of the agreement. Fixed fee agreements will be reviewed annually. We reserve the right to increase the annual fee as part of our annual reviews.

In addition, we periodically conduct investment or financial planning seminars and multi-meeting workshops for the general public, business, government and private groups.

## **Fees and Compensation**

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We provide financial planning and asset management services for a fee. Our fees do not include brokerage commissions, transaction fees, and other related costs and expenses that may be imposed by custodians, third party investment companies and other third parties. These include fees charged by managers, custodial fees, 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. Mutual funds, money market funds and exchange traded funds also charge internal management fees, which are disclosed in the fund's prospectus. These fees may include, but are not limited to, a management fee, upfront sales charges, and other fund expenses. We do not receive any compensation from these fees. All of these fees are in addition to the management fee you pay us. You should review all fees charged to fully understand the total amount of fees you will pay. Services similar to those offered by us may be available elsewhere for more or less than the amounts we charge.

You could invest in a mutual fund directly, without our services. In that case, you would not receive the services provided by us which are designed, among other things, to assist you in determining which mutual fund or funds are most appropriate to your financial condition and objectives.

Our Financial and Investment Planning Advisory Agreement defines the fees which FPA charges and their frequency. We usually bill fees in advance on a quarterly basis. You can opt to pay fees by check or you can authorize the custodian to directly debit fees from your account held at that custodian and to pay us. You will be provided with a quarterly statement reflecting deduction of the advisory fees.

Either party may terminate an agreement (relationship) at any time by providing written notice to the other party within five (5) business days of signing the agreement. You will incur charges for advisory or consulting services rendered up to the point of termination and such fees will be due and payable by you within five business days of being billed. In cases where fees are paid in advance, refunds will be given on a pro-rata basis within five business days of cancellation. Relationships terminated during a calendar quarter will be charged a prorated fee. Once a relationship is established, either party may terminate with a 30 day written notice. Upon termination, any prepaid fees that are in excess of the fee for services performed will be promptly refunded. Any fees that are due, but have not been paid, will be billed to you and are due immediately. Please be advised that FPA has the right to place a lien on custodial accounts if fees are not promptly paid.

## **1. Financial Planning/Consulting Fees**

The fee for your written financial plan is based upon the amount of work required to design your plan and is based upon the information we obtained during our initial interview. You will generally pay the fee upon delivery and presentation of your written financial plan; however, we may make another mutually agreed upon arrangement. We may charge an additional fee for updates or reviews of your financial plan.

Based upon your needs, we may also provide consultations throughout the year to advise and counsel you about other financial issues. We can help you with transition planning, major transaction analysis, cash flow needs, retirement needs, estate planning needs, income tax planning, life and disability insurance needs, investment needs, and college education planning. Our typical hourly rate is \$150.

If we utilize outside consultants such as attorneys, accountants, underwriters and appraisers that are necessary for areas of specialized expertise within your financial plan, you may be charged separate fees by these consultants. These fees are in addition to the Financial Planning fee we charge for creating a financial plan.

If you choose to implement plan recommendations through our advisors, they may receive compensation from the sale of investment products (from Triad) and/or insurance products (from insurance companies) or services recommended in the financial plan. Each advisor is required to inform you if compensation will be paid as a result of implementing recommendations. Your advisory fee may, upon arrangement with your advisor, be reduced by any compensation your advisor receives from these sales. In lieu of such an arrangement, the compensation from these sales would be in addition to the financial planning fee you pay.

The Financial and Investment Planning Advisory Agreement will show the fee you will pay. Fees are generally non-negotiable. In the event that you cancel the financial consultation agreement, please refer

to your Advisory Agreement regarding the cancellation policy. Hourly fees, project fees and retainer fees charged may be refundable in accordance with your Agreement.

Either party may terminate the Agreement at any time by providing written notice to the other party within five (5) business days of signing the Agreement. The client will incur charges for all advisory or consulting services rendered up to the point of termination at the rate of \$150 per hour and the fees will be due and payable within five business days of being billed. Refunds will be given on a pro-rata basis within five business days of cancellation.

All recommendations developed by us are based upon our professional judgment. We cannot guarantee the results of any of our recommendations. You must decide what advice to follow.

## **2. Asset Management Fee Schedule**

Given the nature of ongoing financial planning services which relate to non-asset related analysis and reporting, our primary means of establishing an annual fee is through use of a fixed annual fee calculation rather than a fee based on assets under management. We believe a focus on fees resulting from a percentage of assets under management incorrectly relates our relationship to investment performance alone.

We, also, respect that certain clients contract for our services mainly for investment management services with little desire for a panoramic financial planning relationship. For those clients we offer a fee schedule below. In most cases, we do not impose a minimum dollar balance for engaging our services; however, under certain circumstances we may require at least \$250,000 of assets under management. The fee charged is based upon the amount of money you invest. Generally no fee is charged for bank or credit union assets, fixed annuities, hard assets (such as physical gold and silver) or investment collectibles. Multiple accounts of immediately related family members, at the same mailing address, can be considered one consolidated account for billing purposes if you so elect. The quarterly fee will be charged for the total of all of the accounts comprising the consolidated account. The total fee will be billed to one selected Client account unless arranged otherwise between us. You will pay fees quarterly, in advance. Payments are due and will be assessed on the last day of each quarter, based on the ending balance of the account under management for the preceding quarter and be calculated as follows:

Percentage	Assets Under Management (AUM)
1.50%	Applies to the first \$500,000 (0.375% quarterly), plus
1.25%	Applies to the next \$250,000 (0.3125% quarterly), plus
1.00%	Applies to the next \$2,250,000 (0.25% quarterly), plus
0.75%	Applies to the next \$7,000,000 (0.1875% quarterly), plus
0.50%	Applies to assets in excess of \$10,000,000 (0.125% quarterly)

The fees shown above are annual fees (quarterly percentages shown in parentheses). You will be billed one quarter of this amount at the outset of each quarter. In computing the market value of your assets, we will use the closing price of the investment as of the valuation date as indicated on the investment's

primary exchange. Investments or assets whose daily price cannot be readily determined shall be valued in a manner determined in good faith by us to reflect the fair market value. While FPA does not accept commissions as a form of compensation, our Investment Advisor Representatives may agree to accept commissions for products that you have already purchased prior to engaging our services as an offset to your fee. Advisors may also agree to accept commission income as a fee offset in circumstances where the client prefers that form of compensation.

No increase in the annual fee shall be effective without prior written notification to you. We believe our advisory fee is reasonable considering the fees charged by other investment advisers offering similar services/programs.

In certain circumstances, advisory fees and account minimums may be lowered based upon prior relationships as well as related account holdings. If a flat fee is established, that fee will be listed in your Financial and Investment Advisory Agreement. In such cases, the fee schedule shall not apply. Our fees will not be based upon a share of capital gains or capital appreciation of the funds or any portion of your funds. We will not charge advisory fees in advance that are both in excess of six hundred dollars and more than six months in advance of advisory services rendered.

Certain strategies offered by us may involve investment in mutual funds. Load and no load mutual funds may pay annual distribution charges, sometimes referred to as "12(b) (1) fees." All such fees, deferred sales charges and other fee arrangements are disclosed in the applicable fund's prospectus. If you have chosen to compensate your advisor via commissions, through Triad Advisors, Inc. an investment broker dealer, our advisors do receive compensation from these fees. Such compensation may offset a portion of the fee designated in your Financial Planning and Investment Advisory Agreement. However, if you have chosen to compensate via fee alone, our advisors do not receive compensation from such fees. Please discuss this with your advisor if you have any questions.

Our fees may be deducted from any custodial investment account(s) you designate. Any portion of our fee related to assets managed for you by us but not held by the Custodian (i.e. variable annuities, mutual funds, 401(k) s), can also be deducted from any custodial investment account(s) you designate.

If we deduct our fees from a custodial account(s), we will instruct the Custodian to deduct the fees from your account at the beginning of the calendar quarter. We will send you an invoice detailing account values used for calculating the fee and the fee will appear as a deduction on your monthly account statement from the Custodian.

If you do not want us to charge your account for the quarterly fee, you may pay the quarterly fee directly to us. We will send you an invoice detailing the fee calculation. Fees are due in full upon receipt of the invoice.

Either party may terminate the initial agreement at any time by providing written notice to the other party within five (5) business days of signing the agreement. If cancelled within five business days, you will receive a full refund of any fees paid to us. If cancelled afterwards, we require thirty days prior written notice. Any fees paid in advance will be prorated to the date of termination and any unused portion will be returned.

### **3. Other Fees**

Depending upon the complexity of your financial position, advisory services can be offered on an hourly basis; the current hourly rate is \$150 and is subject to change. Fees are payable at the time services are performed.

Fees charged by your Custodian will not be refunded or returned in any instance, even if within the five (5) day initial period of signing an agreement.

## **Performance Based Fee and Side by Side Management**

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We do not charge any performance-based fees. These are fees based on a share of capital gains on or capital appreciation of the assets of a client.

## **Types of Client(s)**

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We provide portfolio management and investment advisory services to individuals, high net worth individuals, trusts, estates, corporate profit-sharing plans, charitable organizations, foundations, endowments, corporations, and small business owners.

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

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We perform analysis of portfolios and individual investments based upon a proprietary approach. Our methods are privileged in nature but can include fundamental, technical and/or cyclical analyses as well as various charting techniques. Our associated advisors may also obtain assistance from one another or outside consultants and investment advisor representatives in developing recommendations for you. Under such circumstances, your information will be kept confidential in accordance with our privacy policy.

### **1. Fundamental Analysis**

FPA may use a fundamental method of investment analysis for the selection of mutual funds. The process filters the potential number of mutual fund managers by their respective investment style.

Fundamental analysis serves to answer questions, such as:

- Is the money manager or management team consistent in their investment style?
- Is the manager's performance consistent when compared to peers?
- What is the manager's tenure with the fund?
- How has the manager's performance compared to other managers in that style?

- Are the internal costs competitive relative to other managers in that style?

One of the primary objectives of fundamental analysis is to provide current analysis of funds we recommend, whether for selection or de-selection. We use a combination of qualitative and quantitative factors to discover funds that will perform well in their investment style. We look at both investment performance (relative to the peer group and the market) and may use published portfolio statistics (like beta and standard deviation) to analyze the level of risk a manager takes to achieve those returns. When we are examining a fund, we may look at the fund's annual turnover ratio, expense ratio and other quantitative factors.

In order to perform this fundamental analysis, we use many resources, such as:

- Financial newspapers and magazines (e.g. Wall Street Journal, Forbes, etc.)
- Annual reports, prospectuses, filings with the Securities and Exchange Commission
- Research materials prepared by others
- Company Press releases
- Corporate rating services
- Company websites

The investment strategies we use to implement any investment advice given to you may include, but are not limited to:

- Long term purchases (securities held at least three years)
- Short term purchases (securities to be sold within three years)
- Margin transactions (borrowing assets from a Custodian in order to increase total investments)
- Option writing, including covered, uncovered and spread option strategies
- Strategic Asset Allocation

## **2. Technical Analysis**

FPA may use a technical method of selecting individual securities (stocks, bonds, etc.) for your portfolio. Technical Analysis is a technique that attempts to determine a security's value relative to its current or projected future share price. Technical analysis assumes that a market's price reflects all relevant information so the analysis focuses on the history of a security's trading behavior rather than external drivers such as economic, fundamental and news events. The practice of technical analysis incorporates the importance of understanding how market participants perceive and act upon relevant information rather than focusing on the information itself. Ultimately, technical analysts develop trading models and rules by evaluating factors such as market trends, market participant behaviors, supply and demand and pricing patterns and correlations.

In order to perform technical analysis, we may use the following techniques:

- Calculate moving averages such as 10, 50 and 200 day moving averages
- Stochastic oscillators, which incorporate support and resistance levels to determine momentum.
- Charting and chart patterns
- Supply and demand indicators

- Investor behavior and psychology

The investment strategies we use to implement any investment advice given to you may include, but are not limited to:

- Long term purchases (securities held at least three years)
- Short term purchases (securities to be sold within three years)
- Margin transactions (explanation above)
- Option writing, including covered, uncovered and spread option strategies
- Strategic Asset Allocation

As with other types of analysis, the predictive nature of technical analysis can vary greatly; models and rules are often modified and updated as new patterns and behaviors develop. Past performance is not an indicator of future return.

## **Risks**

We cannot guarantee our analysis methods will yield a return. In fact, a loss of principle is always a risk. Investing in securities involves a risk of loss that you should be prepared to handle. You need to understand that investment decisions we make for your portfolio are subject to various market, currency, economic, and political and business risk. The investment decisions we make for you will not always be profitable nor can we guarantee any level of performance. For a more comprehensive description of all the risks associated with our strategies, methodology, and products please refer to the glossary under Risks.

## **Disciplinary Information**

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Registered Investment Advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of us or the integrity of our management. We have no information to disclose here about the firm or any of our investment advisors. We adhere to high ethical standards for all advisors and associates. We strive to do what's in your best interest.

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

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Jeff Hicks, a Certified Financial Planner Practitioner and the President and Chief Compliance Officer for FPA, is a licensed insurance agent/broker. In his role as an advisor, he may recommend insurance products to you for which he or someone else you choose may receive compensation from insurance companies. Jeff may recommend and sell life, health, annuity, and long-term care insurance products. As an associate of FPA, he is required to disclose to you that he will receive commission compensation. Additionally, Jeff is a registered representative of and may offer securities through Triad Advisors, Inc. As an associate of FPA, he is required to disclose to you that he will receive commission compensation. You

should understand that, in both instances, a conflict of interests exists and consider your comfort with him implementing advisory recommendations.

Jeff frequently provides financial planning seminars for Illinois State employees and their spouses. He provides general information on a variety of financial topics. He also has been quoted in multiple print and online publications.

Jon Derieck Hodges (“Derieck”), a Certified Financial Planner Practitioner with FPA, is a licensed insurance agent/broker. In his role as an advisor, he may recommend insurance products to you for which he or someone else you choose may receive compensation from insurance companies. Jeff may recommend and sell life, health, annuity, and long-term care insurance products. As an associate of FPA, he is required to disclose to you that he will receive commission compensation. Additionally, Derieck is a registered representative of and may offer securities through Triad Advisors, Inc. As an associate of FPA, he is required to disclose to you that he will receive commission compensation. You should understand that, in both instances, a conflict of interests exists and consider your comfort with him implementing advisory recommendations.

Derieck frequently appears on KFVS-12, the southeast Missouri CBS affiliate, providing general information on a variety of financial planning topics. Derieck has also appeared and been quoted in multiple publications such as the Los Angeles Times, BankRateMonitor.com and the Southeast Missourian.

## Code of Ethics

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### 1. General Information

We have adopted a Code of Ethics for all supervised persons of the firm describing its high standards of business conduct and fiduciary duty to you, our client. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition of rumor mongering, restrictions on the acceptance of significant gifts, the reporting of certain gifts and business entertainment items, and personal securities trading procedures. All of our supervised persons must acknowledge the terms of the Code of Ethics annually, or as amended.

We may recommend securities to you that we have purchased for our own accounts. We may trade securities in our account that we have recommended to you as long as we place our orders after your orders. This policy is meant to prevent us from benefiting as a result of transactions placed on behalf of advisory accounts.

We have established the following restrictions in order to ensure our fiduciary responsibilities to you are met:

- We shall not buy or sell securities for our personal portfolio(s) where this decision is substantially derived, in whole or in part, from our role as an Investment Advisory Representative of FPA, unless the information is also available to the investing public on reasonable inquiry. In no case, shall we put our own interests ahead of yours.



- We emphasize your unrestricted right to decline to implement any advice rendered.

However, you should be aware that some securities do not have a sufficient number of shares or units trading on an immediate basis to permit transactions to be completed without an appreciable impact on the market price of the securities. Under certain circumstances, exceptions may be made to the policies stated above. Records of these trades, including the reasons for the exceptions, will be maintained with our records as required.

In addition, open-end mutual funds and/or investment sub-accounts that may comprise a variable insurance product, 401(k), or similar asset are purchased or redeemed at the end of a trading day. Therefore, purchases of mutual funds and/or variable insurance products by an advisor are not likely to have an impact on the prices of the fund in which you invest. These types of transactions are not prohibited by our policies and procedures.

Certain affiliated accounts may trade in the same securities with your accounts on an aggregated basis when consistent with our obligation of best execution. When trades are aggregated, all parties will share the costs in proportion to their investment. We will retain records of the trade order (specifying each participating account) and its allocation. Completed orders will be allocated as specified in the initial trade order. Partially filled orders will be allocated on a pro rata basis. Any exceptions will be explained on the order confirmation.

You may request a copy of the firm's Code of Ethics by contacting Jeff Hicks.

### **3. Responsibility**

It is the responsibility of all supervisory personnel to ensure that we conduct business with the highest level of ethical standards and in keeping with our fiduciary duties to you. We must put your interests first and disclose our outside interests that conflict with your interests.

### **4. Privacy Statement**

We are committed to safeguarding your confidential information and hold all personal information provided to it in the strictest confidence. These records include all personal information that we collect from you or receive from other firms in connection with any of the financial services they provide. We also require other firms with whom we deal to restrict the use of your information. Our Privacy Policy and the respective Privacy Policy of Triad is available upon request.

### **5. Prohibited Acts**

The following acts are prohibited:

- Employing any device, scheme or artifice to defraud
- Making any untrue statement of a material fact
- Omitting to state a material fact necessary in order to make a statement not misleading (in light of the circumstances under which it is made)
- Engaging in any fraudulent or deceitful act, practice or course of business
- Engaging in any manipulative practices

## **6. Conflicts of Interest**

We have a duty to disclose potential and actual conflicts of interest to you and FPA management. Gifts (other than de minimis gifts, which are usually defined as having a value under \$100.00) should not be accepted from persons or entities doing business with us. A list of all gifts and gratuities received by an advisor is available upon your request.

Our advisors may employ the same strategy for their personal investment account(s) as those recommended for clients. However, they are required to place their transaction orders in a manner that does not produce benefit for themselves rather than for their clients'.

As discussed under the heading above, Other Financial Industry Activities and Affiliations, our advisors may sell you insurance or securities from which they may be compensated. The fees and expenses you pay for the purchase of these products may be more or less than the expenses you would pay should you decide to implement our recommendations through another source. Therefore, a conflict of interest may exist between our interests and your interests since we may recommend products that may compensate an advisor. In cases wherein you choose our advisor or another advisor to implement recommendations, an incentive to recommend particular products based upon the potential compensation rather than your needs could exist. This potential conflict is addressed in our Code of Ethics.

We act in a fiduciary capacity. If a conflict of interest arises between us and you, we shall make every effort to resolve the conflict in your favor. Conflicts of interest may also arise in the allocation of investment opportunities among the accounts that we advise. We will seek to allocate investment opportunities according to what we believe is appropriate for each account. We strive to do what is equitable and in the best interest of all the clients we advise.

## **7. Use of Disclaimers**

We shall not attempt to limit liability for willful misconduct or gross negligence through the use of disclaimers.

## **8. Suitability**

We shall only recommend those investments that we believe are suitable for you based upon your particular situation and circumstances. In addition, you must notify us within one month (30 days) of any significant changes in your situation or circumstances so that we can respond appropriately.

# **Brokerage Practices**

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## **1. Soft Dollars**

Our broker-dealer Triad has an arrangement with National Financial Services LLC (NFS) that allows us to use their platform services including brokerage, custody, and other related services. These services assist us in managing and administering your accounts. The services include software and other technology that (i) provide access to client account data (such as trade confirmations and account

statements); (ii) facilitate trade execution and allocate aggregated trade orders for multiple client accounts; (iii) provide research, pricing and other market data; (iv) facilitate payment of fees from clients' accounts; and (v) assist with back-office functions, recordkeeping and client reporting.

NFS also offers other services to help us manage and develop our advisory practice. These services include performance reporting, contact management systems, third party research, publications, access to educational conferences, roundtables and webinars, practice management resources, and access to consultants and other third party service providers who provide a wide array of business related services and technology.

Although this is not a material consideration when determining whether to recommend that you use NFS, it is a potential conflict of interest. We recommend NFS based upon their reputation, quality execution and strong customer service. The research products and/or services that may be obtained by us will generally be used to service all of our clients; however a brokerage commission paid by a specific client may be used to pay for research or services that are not used in managing that specific client's account.

We also have access to research materials provided by Triad, our broker-dealer. Your fees are not increased to reimburse us for any charge we may pay for this access.

## **2. Aggregating Orders**

We will generally place your trades individually through your accounts unless we decide to purchase or sell the same securities for several clients at approximately the same time. We may, but are not obligated to, combine or "batch" (sometimes called block orders) such orders to obtain best execution, to negotiate more favorable commission rates or to allocate equitably among our clients differences in prices and commission or other transaction costs. Under this procedure, transactions will be price-averaged and allocated among our clients in proportion to the purchase and sale orders placed for each client account on any given day.

## **3. Brokerage for Client Referrals**

We may receive any compensation or incentive for referring you to Triad, our broker-dealer for brokerage trades. Our Advisors may receive commission or concession compensation in connection with securities transactions executed for you through Triad. Trading costs as a result of our affecting transactions through NFS and/or Triad may be higher than those obtainable from other brokers or custodians. You are not under any obligation to utilize Triad or its custodian NFS.

We may also receive additional compensation for sales of insurance products or securities through Triad or the insurance companies.

## **4. Directed Brokerage**

If requested, we may be able to arrange for the execution of securities brokerage transactions for your account(s) through broker-dealers that we reasonably believe will provide "best execution." In most instances, NFS will provide best execution for you whether directly for your custodial account(s) or for Triad on your behalf. Please be aware that commissions and fees may be higher or lower than that

charged by other custodians or broker-dealers. We have selected Triad and NFS based upon their excellent reputation, quality execution and other services available.

In seeking best execution, the determinative factor is not the lowest possible commission or transaction cost but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services including the value of research provided, execution capability, and responsiveness. Therefore, we will seek competitive commission and transaction costs, but we may not obtain the lowest possible costs for account transactions.

Not all advisory firms require you to direct brokerage to a specific broker/dealer. We have an obligation to seek best execution for you. In seeking best execution, the determinative factor is not the lowest possible commission cost but whether the transaction represents the best qualitative execution, taking into consideration the full range of a Broker-Dealer's services including the value of research provided, execution capability, commission rates, and responsiveness. Therefore, we will seek competitive commission rates, but we may not obtain the lowest possible commission rates for account transactions.

## **Review of Accounts**

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### **1. Duty to Supervise**

We are responsible for ensuring adequate supervision over the activities of all persons who act on our behalf. Specific duties include:

- Establish procedures that could be reasonably expected to prevent and detect violations of law by our advisory personnel
- Analyze operations and create a system of controls to ensure compliance with applicable securities laws
- Ensure that all advisory personnel fully understand FPA's policies and procedures
- Establish a review system designed to provide reasonable assurance that our policies and procedures are effective and being followed

### **2. Reviews**

Alfred Jeffrey Hicks (Jeff) is responsible for reviewing all recommendations formulated and implemented by all advisors associated with FPA. In addition, Jeff reviews all clients' accounts at least annually with your advisor. Each advisor is required to provide each client no less than an annual review. At FPA's discretion, our relationship may be terminated with clients that do not respond to a request to participate in an annual review. Financial plan and portfolio reviews are conducted on an ongoing basis and may require more frequent periodic reviews directly with clients. Generally, we will monitor for changes and shifts in the economy, changes to the management and structure of a mutual fund or company in which client assets are invested, and market price corrections. You should notify us

promptly of any changes to your financial goals, objectives or financial situation as such changes may require us to review your portfolio and make recommendations for changes.

### **3. Reports**

You will be provided with account summaries and statements reflecting the transactions occurring in the account on at least a quarterly basis; the statements will be provided by your broker-dealer/ custodian. These statements will be written or electronic depending upon your selection. Based on your selection, you will also be provided with paper or electronic confirmations for each security transaction executed in the account(s) we supervise. You must notify us of any discrepancies or any concerns you have about the account(s).

You may also receive a supplemental periodic report from us summarizing your account activity and performance and the calculations used to determine fees.

## **Client Referrals and Other Compensation**

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We depend upon our existing clients to provide referrals to persons or entities that may desire our services. We do not engage anyone (professionals or non-professionals) to solicit for new client referrals. We do not receive compensation or pay compensation related to solicitation for client referrals from any source.

## **Custody**

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We do not have custody of any accounts. You may utilize a custodian of your choice. We may recommend National Financial Services, Inc. (NFS) as the custodian for certain or all of your accounts. NFS provides monthly account statements. Other custodians should provide at least quarterly statements. We urge you to carefully review such statements and compare this official custodial record to all reviews and statements that we may provide you. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities. If you notice any discrepancies, please contact Jeff Hicks.

We generally debit client fees directly from an advisory account(s). In such cases, we provide the custodian with a report detailing the fee amount and account number from which the fee should be deducted. We provide a report to you detailing the values or fee amount and account from which the fee shall be deducted. The custodian alone has authority to deduct fees. The custodian forwards all fee deductions directly to FPA. The custodian will provide you immediate transaction confirmations and monthly statements either by mail or electronically per your request. Monthly statements list the total value of the account at the start and end of the month and itemize all transactions and security positions as well as advisory fee deductions. For taxable accounts, the custodian will provide you consolidated year-end summary statements including IRS forms 1099 and other tax-related forms, as

applicable. FPA has no authority to make alterations or amendments to the custodian's statement in order to preserve the integrity of the custodian's statement and provide you with an independent appraisal of the account positions and value.

## **Investment Discretion**

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We generally receive discretionary authority from you at the beginning of an advisory relationship to select the identity and amount of securities to be bought or sold and to direct investment asset allocation regarding accounts we supervise. This information is described in the Financial Planning and Investment Advisory Agreement you sign with us. In all cases, however, this discretion is exercised in a manner consistent with our interpretation of your stated investment objectives and goals.

When selecting securities and determining amounts, we observe any investment policies, limitations or restrictions you have set. For registered investment companies (mutual funds, variable insurance, 401(k), etc.), our authority to trade securities may also be limited by certain federal securities and tax laws or custodial restrictions.

Investment policies, guidelines and restrictions must be provided to us in writing.

## **Voting Client Securities**

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As a matter of firm policy and practice, we do not vote proxies on behalf of advisory clients. You retain the responsibility for receiving and voting proxies for any and all securities maintained in your portfolios. We may provide advice to you regarding your voting of proxies. We may be authorized to instruct custodians to forward you copies of all proxies and shareholder communications related to your account assets.

## **Financial Information**

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Because we do not accept custody of your assets, we are not required to provide financial information or disclosures about our financial condition. We do state that we have no financial commitment that would impair our ability to meet any contractual and fiduciary commitment to you, our client. We have not been the subject of any bankruptcy proceedings.

## Requirements for State Registered Advisers

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There is one principal of Financial Planning Advisors, Inc., Alfred Jeffrey Hicks. His information is as follows:

### Alfred Jeffrey Hicks (“Jeff”)

#### Position

President / Chief Compliance Officer (“CCO”) / Owner

#### Date of Birth

1956

#### Education

Bachelor of Arts	1984
Johnson Bible College	Knoxville, TN

#### Designations

Certified Financial Planner	1997
American College	Bryn Mawr, PA

#### Minimum Designation Requirements

##### Certified Financial Planner (CFP)

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:

- **Experience:** Complete at least three years of full-time financial planning-related experience (or the equivalent, measured as 2,000 hours per year)
- **Educational Requirements:** 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 Type:** 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
- **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/Experience Requirements:** Complete 30 hours of continuing education hours every two years, including two hours on the Code of Ethics and other parts of the Standards of Professional Conduct to maintain competence and keep up with developments in the financial planning field
- **Ethics:** Renew an agreement to be bound by the Standards of Professional Conduct. The Standards prominently require that CFP® professionals provide financial planning services at a fiduciary standard of care. This means CFP® professionals must provide financial planning services in the best 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.

### Business History

May 1994 - Present	President and CCO at Financial Planning Advisors, Inc.
May 2001 - Present	Registered Representative at Triad Advisors, Inc.
February 1994 – May 2001	Registered Representative at Lombard Securities, Inc.
March 1993 – March 1994	Registered Representative at W.S. Griffith & Co., Inc.
February 1991 – March 1993	Registered Representative at Phoenix Equity Planning Corporation

### Licenses

Jeff has several FINRA licenses including the Series 7, 24, 63 and 65 licenses. He is licensed to transact investment advisory services in Illinois, Missouri and Texas. Jeff is also licensed to transact securities business in Florida, Illinois, Minnesota, Missouri, Oklahoma, Texas and Wisconsin.

### Other Business Activities

Jeff is a registered representative and may offer securities through Triad Advisors, Inc.

### Specialty

Jeff specializes in developing financial plans, coordinating family-owned business wealth transfer, estimating and monitoring long-term financial goals and investment management for individuals. Each aspect of the investment management and financial planning process is tailored to the unique needs of his clients. Jeff's commitment is evaluating and coordinating options that optimize financial outcomes.



There is one associate Advisor of Financial Planning Advisors, Inc., Derieck. His information is as follows:

## **Jon Derieck Hodges (“Derieck”)**

### **Position**

Associate/Investment Advisor Representative

### **Date of Birth**

1965

### **Education**

Bachelor of Science	1991
Tarkio College	Tarkio, MO

### **Designations**

Certified Financial Planner (CFP®)	2004
American College	Bryn Mawr, PA

### **Minimum Designation Requirements**

#### **Certified Financial Planner (CFP)**

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:

- **Experience:** Complete at least three years of full-time financial planning-related experience (or the equivalent, measured as 2,000 hours per year)
- **Educational Requirements:** 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 Type:** 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

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

### **Business History**

September 2004 - Present	Associate Advisor at Financial Planning Advisors, Inc.
January 2002 - Present	Registered Representative at Triad Advisors, Inc.
May 1983 – President	President at Albrecht-Hodges Insurance Agency
September 1994 – December 2001	Registered Representative at Lombard Securities, Inc.

### **Licenses**

Derieck has several FINRA licenses including the Series 6, 63 and 65 licenses. He is licensed to transact investment advisory services in Illinois, Missouri and Texas. Derieck is also licensed to transact securities business in Illinois, Missouri, and Texas.

### **Other Business Activities**

Derieck is a registered representative and may offer securities through Triad Advisors, Inc.

Derieck frequently appears on KFVS-12, the southeast Missouri CBS affiliate, addressing a variety of financial planning topics. Derieck has also been interviewed about various insurance and financial planning matters for newspapers and financial publications that include the Los Angeles Times, Bank Rate Monitor.com and the Southeast Missourian.

### **Specialty**

Derieck specializes in developing financial plans, coordinating family-owned business wealth transfer, estimating and monitoring long-term financial goals and investment management for individuals. Each aspect of the investment management and financial planning process is tailored to the unique needs of his clients.

## Glossary of Key Terms

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**Adviser** — Financial Planning Advisors, Inc.

**Advisor** — Your individual representative at Financial Planning Advisors, Inc.

**Asset Allocation** — The process of dividing investments among different kinds of assets, such as stocks, bonds, real estate and cash, to optimize the risk/reward tradeoff based on an individual's or institution's specific situation and goals; a key concept in financial planning and money management.

**Asset-class investment portfolios** — an asset class is a grouping of similar investments whose prices tend to move together. Asset classes can be defined on a very general level, such as stocks or on a more specific level, such as American silver producing companies. The concept of asset classes is important because one of the goals when building an investment portfolio is to use different asset classes, which are not correlated with each other.

**Designations** — *The CFP®*, *CERTIFIED FINANCIAL PLANNER™* and certification marks are financial planning credentials awarded by Certified Financial Planner Board of Standards Inc. (CFP Board) to individuals who meet education, examination, and experience and ethics requirements. CFP® certificate holders are required to have 30 continuing education hours every two years.

**Diversification** — a portfolio strategy designed to reduce exposure to risk by combining a variety of investments, such as stocks, bonds, and real estate, which are unlikely to all move in the same direction. The goal of diversification is to reduce the risk in a portfolio. Volatility is limited by the fact that not all asset classes or industries or individual companies move up and down in value at the same time or at the same rate. Diversification reduces both the upside and downside potential and allows for more consistent performance under a wide range of economic conditions.

**Exchange-Traded Funds (ETF)** — a type of an investment company (either a closed-end mutual fund company or unit investment trust) whose objective is to achieve the same return as a particular market index. ETFs differ from traditional open-end mutual fund companies because, pursuant to SEC exemptive orders, shares issued by ETFs trade on a market exchange and are not purchased from or redeemable from the mutual fund company itself.

**Expense Ratio** — a mutual fund company's total annual operating expenses [including management fees, distribution (12b-1) fees, and other expenses] expressed as a percentage of average net assets.

**Fees** — a list of all fees associated with different products we may recommend are listed below:

1. **12b-1 Fees** — Fees paid by a mutual fund company out of fund assets to cover the costs of marketing and selling fund shares and sometimes to cover the costs of providing shareholder services. "Distribution fees" include fees to compensate brokers and others who sell fund shares and to pay for advertising, the printing and mailing of prospectuses to new investors, and the

printing and mailing of sales literature. "Shareholder Service Fees" are fees paid to persons to respond to investor inquiries and provide investors with information about their investments.

2. **Account Fee**— A fee that some mutual fund or custodial companies separately impose on investors for the maintenance of their accounts. For example, accounts below a specified dollar amount may have to pay an account fee.
3. **Distribution Fees** — Fees paid out of mutual fund company assets to cover expenses for marketing and selling fund shares, including advertising costs, compensation for brokers and others who sell fund shares, and payments for printing and mailing prospectuses to new investors and sales literature prospective investors. Sometimes referred to as "12b-1 fees."
4. **Management Fee** — fee paid out of mutual fund company assets to the fund's investment adviser or its affiliates for managing the fund's portfolio, any other management fee payable to the fund's investment adviser or its affiliates, and any administrative fee payable to the investment adviser that are not included in the "Other Expenses" category. A fund's management fee appears as a category under "Annual Fund Operating Expenses" in the mutual fund company Prospectus Fee Table.
5. **Operating Expenses** — the costs a mutual fund company incurs in connection with operating the fund, including management fees, distribution (12b-1) fees, and other expenses.
6. **Purchase Fee** — a shareholder fee that some mutual fund companies charge when investors purchase mutual fund shares. Not the same as (and may be in addition to) a front-end load.
7. **Redemption Fee** — a shareholder fee that some mutual fund companies charge when investors redeem (or sell) mutual fund shares. Redemption fees (which must be paid to the fund) are not the same as (and may be in addition to) a back-end load (which is typically paid to a broker). The SEC generally limits redemption fees to 2%.
8. **Sales Charge (or "Load")** — the amount that investors pay when they purchase (front-end load) or redeem (back-end load) shares in a mutual fund company. Portions of such charges are paid to a broker-dealer and its registered representative as commission compensation for their services. The SEC's rules do not limit the size of sales load a mutual fund company may charge, but FINRA rules state that mutual fund sales loads cannot exceed 8.5% and must be even lower depending on other fees and charges assessed.
9. **Shareholder Service Fees** — fees paid to persons to respond to investor inquiries and provide investors with information about their investments. See also "12b-1 fees."

**Index Fund** — describes a type of mutual fund or Unit Investment Trust (UIT) whose investment objective typically is to achieve the same performance return as a particular market index, such as the S&P 500 Composite Stock Price Index, the Russell 2000 Index, or the Salomon Broad Investment Grade Index.

**Investment Adviser** — generally, a person or entity that receives compensation for giving individually tailored investment advice to specific persons or entities related to allocating or investing in stocks, bonds, or mutual funds. Also may be a reference to advisers managing portfolios of securities, including mutual funds.

**Investment Company** — a company (corporation, business trust, partnership, or limited liability company) that issues securities and is primarily engaged in the business of investing in securities. The three basic types of investment companies are open-end funds, closed-end funds, and unit investment trusts.

**Investment Goals** — objective or target, usually driven by specific future financial needs. Some common goals for an individual are: saving for a comfortable retirement, saving to send children to college, managing finances to enable a home purchase, minimizing taxes, maximizing return on investments, and estate or trust planning.

**Investment Objectives** — the financial goal or goals of an investor. An investor may wish to maximize current income, minimize or maximize capital gain, or set a middle course of current income with some appreciation of capital. Defining investment objectives helps to determine the investments an individual should select.

**Margin** — borrowing money (usually using securities you already own as collateral) that is used to purchase securities

**Mutual Fund** — the common name for an open-end or closed-end investment company. Like other types of investment companies, open-end mutual funds pool money from many investors and invest the money in stocks, bonds, short-term money-market instruments, or other securities. Open-end mutual fund companies issue redeemable shares that investors purchase directly from the fund company (or through a broker-dealer for the fund) instead of purchasing from investors on a secondary market exchange. Closed-end mutual funds sell shares in their investment company through use of initial public offerings to raise investment capital. Following the initial offering, shares of closed-end funds are traded on a secondary market exchange.

**NAV (Net Asset Value)** — the value of the fund's assets minus its liabilities. SEC rules require funds to calculate the NAV at least once daily. To calculate the NAV per share, simply subtract the fund's liabilities from its assets and then divide the result by the number of shares outstanding.

**No-load Mutual Fund** — a fund that does not charge any type of sales load. But not every type of shareholder fee is a "sales load," and a no-load fund may charge fees that are not sales loads. No-load funds also charge operating expenses.

**Open-End Investment Company** — the legal name for a mutual fund that pools investor money providing capital for the company to create an investment portfolio. Open-end investment companies do not sell shares on a secondary market exchange.

**Option Contracts** — the right, but not the obligation, to buy (for a call option) or sell (for a put option) a specific amount of a given stock, commodity, currency, index, or debt, at a specified price (the strike price) during a specified period of time. For stock options, the amount is usually 100 shares. Each option contract has a buyer, called the holder, and a seller, known as the writer. If the option contract is exercised, the writer is responsible for fulfilling the terms of the contract with the appropriate party. In the case of a security that cannot be delivered such as an index, the contract is settled in cash. For the

holder, the potential loss is limited to the price paid to acquire the option. When an option is not exercised, it expires without action from either party. For the buyer, the gain is unlimited. Option contracts, like stocks, are therefore said to have an asymmetrical payoff pattern. For the writer, the potential loss is unlimited unless the contract is covered, meaning that the writer already owns the security underlying the option. Option contracts are most frequently used as either leverage or protection. As leverage, options allow the holder to control equity in a limited capacity for a fraction of what the shares would cost. The difference can be invested elsewhere until the option is exercised. As protection, options can guard against price fluctuations in the near term because they provide the right to acquire the underlying stock at a fixed price for a limited time. Risk is limited to the option premium (except when writing options for a security that is not already owned). However, the costs of trading options (including both commissions and the bid/ask spread) is higher on a percentage basis than trading the underlying stock. In addition, options are very complex and require a great deal of observation and maintenance

**Portfolio** — an individual's or entity's combined holdings of stocks, bonds, or other securities and assets.

**Profile** — summarizes key information about a mutual fund's costs, investment objectives, risks, and performance. Although every mutual fund has a prospectus, not every mutual fund has a profile.

**Prospectus** — describes the open-end mutual fund to prospective investors. Every open-end mutual fund has a prospectus. The prospectus contains information about the mutual fund's costs, investment objectives, risks, and performance. You can get a prospectus from the mutual fund company (through its website or by phone or mail). Your financial professional or broker may also provide you with a copy.

**Risks** — a list of risks associated with the strategies, products and methodology we offer are listed below:

#### 1. Fundamental Analysis Risk

Fundamental analysis, when used in isolation, has a number of risks:

- There are an infinite number of factors that can affect the performance of an investment over time. These can include economic, political and social factors, in addition to the various internal costs and management changes.
- When using this method with mutual funds, the funds are invest in many companies and not all of them will be undervalued or fit a specific profile
- The data used may be out of date.
- It is difficult to give appropriate weightings to the factors.
- It assumes that the data sources are reliable.
- It ignores the influence of random events such as oil spills, product defects being exposed, and acts of God and so on.
- It assumes that there is no monopolistic power over markets.

- Even when fundamental analysis reveals a company with high prospects, it does not tell us anything about the future direction the management may take the company. In terms of a mutual fund, we may have discovered an investment manager who has exhibited above average performance over a period of time only to find that performance cannot be repeated as the fund grows in size or without increasing the risk profile of the fund.

## 2. Mutual Funds Risk

Mutual funds can offer the advantages of diversification and professional management. But, as with other investment choices, investing in mutual funds involves risk, fees and taxes that will impact a fund's performance returns.

But mutual funds also have features that some clients might view as disadvantages, such as:

- Initial and Ongoing Costs despite Negative Returns — Clients may pay sales charges, annual fees, and other expenses) regardless of how the fund performs. And, depending on the timing of their investment, clients may also have to pay taxes on any capital gains distribution they receive — even as the fund share price loses value.
- Lack of Control — Investors typically cannot ascertain the exact make-up of a fund's portfolio at any given time, nor can they directly influence which securities the fund manager buys and sells or the timing of those trades.
- Price Uncertainty — with an individual stock or bond, you can obtain real-time (or close to real-time) pricing information with relative ease by checking financial websites or by calling your advisor. You can also monitor how a stock's price changes from hour to hour. But with a mutual fund, the price at which you purchase or redeem shares typically depends on the fund's NAV. Mutual fund companies calculate NAV following the close of the secondary market's business day which often is hours after you've placed your order. In general, mutual funds must calculate their NAV at least once every business day, typically after the major U.S. exchanges close.

The following is a list of some general risks associated with investing in mutual funds.

- Country Risk - The possibility that political events (a war, national elections), financial problems (rising inflation, government default), or natural disasters (an earthquake, a poor harvest) will weaken a country's economy and cause investments in that country to decline.
- Currency Risk -The possibility that returns could be reduced for Americans investing in foreign securities because of a rise in the value of the U.S. dollar against foreign currencies. Also called exchange-rate risk.
- Income Risk - The possibility that a fixed-income fund's dividends will decline as a result of falling overall interest rates.
- Industry Risk - The possibility that a group of stocks in a single industry will decline in price due to developments in that industry.
- Inflation Risk - The possibility that increases in the cost of living will reduce or eliminate a fund's real inflation-adjusted returns.

- **Manager Risk** -The possibility that an actively managed mutual fund's investment adviser will fail to execute the fund's investment strategy effectively resulting in the failure of stated objectives. The manager may also retire or leave the employment of the mutual fund.
- **Market Risk** -The possibility that stock fund or bond fund prices overall will decline over short or even extended periods. Stock and bond markets tend to move in cycles, with periods when prices rise and other periods when prices fall.
- **Principal Risk** -The possibility that an investment will go down in value, or "lose money," from the original or invested amount.

### 3. Bond Fund Risk

Bond funds generally have higher risks than money market funds, largely because they typically pursue strategies aimed at producing higher yields. Risks associated with bond funds include:

- **Call Risk** - The possibility that falling interest rates will cause a bond issuer to redeem—or call—its high-yielding bond before the bond's maturity date.
- **Credit Risk** — the possibility that companies or other issuers whose bonds are owned by the fund may fail to pay their debts (including the debt owed to holders of their bonds). Credit risk is less of a factor for bond funds that invest in insured bonds or U.S. Treasury bonds. By contrast, those that invest in the bonds of companies with poor credit ratings generally will be subject to higher risk.
- **Interest Rate Risk** — the risk that the market value of the bonds will go down when interest rates go up. Because of this, you can lose money in any bond mutual fund, including those that invest only in insured bonds or Treasury bonds.
- **Prepayment Risk** — the chance that a bond will be paid off early. For example, if interest rates fall, a bond issuer may decide to pay off (or "retire") its debt and issue new bonds that pay a lower rate. When this happens, the mutual fund may not be able to reinvest the proceeds in an investment with as high a return or yield.

### 4. Stock Fund Risk

Although a stock fund's value can rise and fall quickly over the short term, historically stocks have performed better over the long term than other types of investments — including corporate bonds, government bonds, and treasury securities.

Overall "market risk" poses the greatest potential danger for investors in stocks funds. Stock prices can fluctuate for a broad range of reasons, such as the overall strength of the economy or demand for particular products or services.

Not all stock funds are the same. For example:

- **Growth funds** focus on stocks that may not pay a regular dividend but have the potential for large capital gains.
- **Income funds** invest in stocks that pay regular dividends.



- Index funds aim to achieve the same return as a particular market index, such as the S&P 500 Composite Stock Price Index, by investing in all — or perhaps a representative sample — of the companies included in an index.
- Sector funds may specialize in a particular industry segment, such as technology or consumer products stocks.

## 5. Alternative Investment Risk

Investing in alternative investments is speculative, not suitable for all clients, and intended for experienced and sophisticated investors who are willing to bear the high economic risks of the investment, which can include:

- Loss of all or a substantial portion of the investment due to leveraging, short-selling or other speculative investment practices
- Lack of liquidity in that there may be no secondary market for the company's shares and none expected to develop
- Volatility of returns
- Restrictions on transferring interests in the fund
- Absence of information regarding valuations and pricing
- Delays in tax reporting
- Less regulation and higher fees than mutual funds

## 6. Insurance Product Risk

The rate of return on variable insurance products is not stable, but varies with the stock, bond and money market subaccounts that you choose as investment options. Variable insurance products include, but not limited to, variable annuities and variable universal life. There is no guarantee that you will earn any return on your investment and there is a risk that you may lose money. Before you consider purchasing a variable product, make sure you fully understand all of its terms. Carefully read the prospectus. Some of the major risks include:

- Liquidity and Early Withdrawal Risk – There may be a surrender charges for withdrawals within a specified period, which can be as long as six to eight years. Any withdrawals before a client reaches the age of 59 ½ are generally subject to a 10 percent income tax penalty in addition to any taxation as ordinary income.
- Sales and Surrender Charges –Asset-based sales charges or surrender charges. These charges normally decline and eventually are eliminated the longer you hold your shares. For example, a surrender charge could start at 7 percent in the first year and decline by 1 percent per year until it reaches zero.
- Fees and Expenses – There are a variety of fees and expenses which can reach 2% and more such as:
  - Mortality and expense risk charges
  - Administrative fees

- Underlying fund expenses
- Charges for any special features or riders
- Bonus Credits – Some products offer bonus credits that can add a specified percentage to the amount invested ranging from 1 percent to 5 percent for each premium payment. Bonus credits are usually not free. In order to fund them, insurance companies typically impose high mortality and expense charges and lengthy surrender charge periods.
- Guarantees - Insurance companies provide a number of specific guarantees. For example, they may guarantee a death benefit or an annuity payout option that can provide income for life. These guarantees are only as good as the insurance company that gives them.
- Market Risk -The possibility that stock fund or bond fund prices overall will decline over short or even extended periods. Stock and bond markets tend to move in cycles, with periods when prices rise and other periods when prices fall.
- Principal Risk -The possibility that an investment will go down in value, or "lose money," from the original or invested amount.

#### 7. Overall Mutual Fund Risk

- Clients need to remember that past performance is no guarantee of future results. All funds carry some level of risk. You may lose some or all of the money you invest, including your principal, because the securities held by a fund goes up and down in value. Dividend or interest payments may also fluctuate, or stop completely, as market conditions change.
- Before you invest, be sure to read a fund's prospectus and shareholder reports to learn about its investment strategy and the potential risks. Funds with higher rates of return may take risks that are beyond your comfort level and are inconsistent with your financial goals.
- While past performance does not necessarily predict future returns, it can tell you how volatile (or stable) a fund has been over a period of time. Generally, the more volatile a fund, the higher the investment risk. If you'll need your money to meet a financial goal in the near-term, you probably can't afford the risk of investing in a fund because you will not have enough time to ride out any declines in the investment markets.

#### 8. Technical Analysis risk

- Technical analysis is derived from the study of market participant behavior and its efficacy is a matter of controversy.
- Methods vary greatly and can be highly subjective; different technical analysts can sometimes make contradictory predictions from the same data.
- Models and rules can incur sufficiently high transaction costs.

**Risk Tolerance** — the extent to which an investor is willing to accept more risk in exchange for the possibility of a higher return. An investor with a high risk tolerance is likely to invest in securities, such as stocks in startup companies, and is willing to accept the possibility that the value of his/her portfolio will decline, at least in the short-term. An investor with a low risk tolerance, on the other hand, tends to

invest predominantly in stable stocks and/or highly-graded bonds. One's risk tolerance is subjective and may vary according to age, needs, goals, and even personal dispositions

**Third Party Money Manager** — the professional management of various securities (shares, bonds and other securities) and assets (e.g., real estate), to meet specified investment goals for the benefit of the investors. The managers are not the actual advisers working with the investor. Investors may be institutions, insurance companies, pension funds, corporations, individuals, etc.

**Total Annual Fund Operating Expense** — the total of a fund's annual fund operating expenses, expressed as a percentage of the fund's average net assets. You'll find the total in the fund's fee table in the prospectus.

**Unit Investment Trust (UIT)** — a type of investment company that typically makes a one-time "public offering" of only a specific, fixed number of units. A UIT will terminate and dissolve on a date established when the UIT is created (although some may terminate more than fifty years after they are created). UITs do not actively trade their investment portfolios.

**You** — the client