

**Part 2A of Form ADV: *Firm Brochure***

**The Leonard Financial Group, LLC**

6820 Indiana Avenue  
Suite 230  
Riverside, CA 92506

Telephone: 951-781-7320  
Email: [karl.hicks@leonardllc.com](mailto:karl.hicks@leonardllc.com)  
Web Address: [www.leonardllc.com](http://www.leonardllc.com)

3/16/2011

This brochure provides information about the qualifications and business practices of Leonard Financial. If you have any questions about the contents of this brochure, please contact us at 951-781-7320 or [karl.hicks@leonardllc.com](mailto:karl.hicks@leonardllc.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Leonard Financial also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. Our firm's CRD number is 123651.

## **Item 2    Material Changes**

The SEC adopted "Amendments to Form ADV" in July, 2010. This Firm Brochure, dated 3/16/2011, is our new disclosure document prepared according to the SEC's new requirements and rules. As you will see, this document is a narrative that is substantially different in form and content, and includes some new information that we were not previously required to disclose.

After our initial filing of this Brochure, this Item will be used to provide our clients with a summary of new and/or updated information. We will inform you of the revision(s) based on the nature of the updated information.

Consistent with the new 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. Furthermore, we will provide you with other interim disclosures about material changes as necessary.

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## **Item 4    Advisory Business**

The Leonard Financial Group, LLC is a SEC-registered investment adviser with its principal place of business located in CA. The Leonard Financial Group, LLC began conducting business in 2003.

Listed below are the firm's principal shareholders (i.e., those individuals and / or entities controlling 25% or more of this company);

- Karl L. Hicks,
- Vernon T. Hall,

Leonard Financial offers the following advisory services to our clients:

### **INVESTMENT SUPERVISORY SERVICES ("ISS") INDIVIDUAL PORTFOLIO MANAGEMENT**

Our firm provides continuous advice to a client regarding the investment of client funds based on the individual needs of the client. Through personal discussions in which goals and objectives based on a client's particular circumstances are established, we develop a client's personal investment policy and create and manage a portfolio based on that policy. During our data-gathering process, we determine the client's individual objectives, time horizons, risk tolerance, and liquidity needs. As appropriate, we also review and discuss a client's prior investment history, as well as family composition and background.

We manage these advisory accounts on a discretionary or non-discretionary basis. Account supervision is guided by the client's stated goals and objectives as well as tax considerations.

Our investment recommendations are not limited to any specific product or service offered by a broker-dealer or insurance company and will generally include advice regarding the following securities:

- Exchange-listed securities
- Securities traded over-the-counter
- Foreign issuers
- Warrants
- Corporate debt securities (other than commercial paper)
- Commercial paper
- Certificates of deposit
- Municipal securities

- Variable life insurance
- Variable annuities
- Mutual fund shares
- United States governmental securities
- Options contracts on securities
- Options contracts on commodities
- Futures contracts on intangibles
- Interests in partnerships investing in real estate

Because some types of investments involve certain additional degrees of risk, they will only be implemented / recommended when consistent with the client's stated investment objectives, tolerance for risk, liquidity and suitability.

### **INVESTMENT SUPERVISORY SERVICES ("ISS") MODEL PORTFOLIO MANAGEMENT**

Our firm provides portfolio management services to clients using model asset allocation portfolios. Each model portfolio is designed to meet a particular investment goal.

<b>Portfolio Name</b>	<b>Blended Benchmark</b>	<b>Description</b>
Extremely Aggressive Portfolio	99% Equity, 1% Cash Equivalent	This flexible asset allocation portfolio focuses on diversified asset classes. The goal of this portfolio is to match the performance of its blended benchmark, while reducing equivalent portfolio volatility (portfolio risk).
Moderately Aggressive Portfolio	80% Equity, 19% Fixed Income, 1% Cash Equivalent	This flexible asset allocation portfolio focuses on diversified asset classes. The goal of this portfolio is to match the performance of its blended benchmark, while reducing equivalent portfolio volatility (portfolio risk).
Balanced Growth	60% Equity, 39% Fixed Income, 1% Cash Equivalent	This flexible asset allocation portfolio focuses on diversified asset classes. The goal of this portfolio is to match the performance of its blended benchmark, while reducing equivalent portfolio volatility (portfolio risk).

Moderate Growth	40% Equity, 59% Fixed Income, 1% Cash Equivalent	This flexible asset allocation portfolio focuses on diversified asset classes. The goal of this portfolio is to match the performance of its blended benchmark, while reducing equivalent portfolio volatility (portfolio risk).
Modest Conservative	20% Equity, 79% Fixed Income, 1% Cash Equivalent	This flexible asset allocation portfolio focuses on diversified asset classes. The goal of this portfolio is to match the performance of its blended benchmark, while reducing equivalent portfolio volatility (portfolio risk).
Very Conservative	99% Fixed Income, 1% Cash Equivalent	This flexible asset allocation portfolio focuses on diversified asset classes. The goal of this portfolio is to match the performance of its blended benchmark, while reducing equivalent portfolio volatility (portfolio risk).

We manage these advisory accounts on a discretionary or non-discretionary basis. Account supervision is guided by the client's stated goals and objectives as well as tax considerations.

Through personal discussions with the client in which the client's goals and objectives are established, we determine if the model portfolio is suitable to the client's circumstances. Once we determine the suitability of the portfolio, the portfolio is managed based on the portfolio's goal, rather than on each client's individual needs. Clients, nevertheless, have the opportunity to place reasonable restrictions on the types of investments to be held in their account. Clients retain individual ownership of all securities.

Our investment recommendations are not limited to any specific product or service offered by a broker dealer or insurance company and will generally include advice regarding the following securities:

- Exchange-listed securities
- Securities traded over-the-counter
- Foreign issuers
- Warrants
- Corporate debt securities (other than commercial paper)
- Commercial paper
- Certificates of deposit

- Municipal securities
- Variable life insurance
- Variable annuities
- Mutual fund shares
- United States governmental securities
- Options contracts on securities
- Options contracts on commodities
- Futures contracts on intangibles
- Interests in partnerships investing in real estate

Because some types of investments involve certain additional degrees of risk, they will only be implemented/recommended when consistent with the client's stated investment objectives, tolerance for risk, liquidity and suitability.

To ensure that our initial determination of an appropriate portfolio remains suitable and that the account continues to be managed in a manner consistent with the client's financial circumstances, we will:

1. send quarterly written reminders to each Model Portfolio Management Services client requesting any updated information regarding changes in the client's financial situation and investment objectives;
2. at least annually, contact each participating client to determine whether there have been any changes in the client's financial situation or investment objectives;
3. be reasonably available to consult with the client; and
4. maintain client suitability information in each client's file.

## **FINANCIAL PLANNING**

We provide financial planning services. Financial planning is a comprehensive evaluation of a client's current and future financial state by using currently known variables to predict future cash flows, asset values and withdrawal plans. Through the financial planning process, all questions, information and analysis are considered as they impact and are impacted by the entire financial and life situation of the client. Clients purchasing this service receive a written report which provides the client with a detailed financial plan designed to assist the client achieve his or her financial goals and objectives.

In general, the financial plan can address any or all of the following areas:

- **PERSONAL:** We review family records, budgeting, personal liability, estate information and financial goals.
- **TAX & CASH FLOW:** We analyze the client's income tax and spending and planning for past, current and future years; then illustrate the impact of various investments on the client's current income tax and future tax liability.
- **INVESTMENTS:** We analyze investment alternatives and their effect on the client's portfolio.
- **INSURANCE:** We review existing policies to ensure proper coverage for life, health, disability, long-term care, liability, home and automobile.
- **RETIREMENT:** We analyze current strategies and investment plans to help the client achieve his or her retirement goals.
- **DEATH & DISABILITY:** We review the client's cash needs at death, income needs of surviving dependents, estate planning and disability income.
- **ESTATE:** We assist the client in assessing and developing long-term strategies, including as appropriate, living trusts, wills, review estate tax, powers of attorney, asset protection plans, nursing homes, Medicaid and elder law.

We gather required information through in-depth personal interviews. Information gathered includes the client's current financial status, tax status, future goals. We carefully review documents supplied by the client, and prepare a written report. Should the client choose to implement the recommendations contained in the plan, we suggest the client work closely with his / her attorney, accountant, insurance agent, and other financial service providers. Implementation of the financial plan and recommendations is entirely at the client's discretion.

We also provide general non-securities advice on topics that may include tax and budgetary planning, estate planning and business planning.

- Exchange-listed securities
- Securities traded over-the-counter
- Foreign issuers
- Warrants



- Corporate debt securities (other than commercial paper)
- Commercial paper
- Certificates of deposit
- Municipal securities
- Variable life insurance
- Variable annuities
- Mutual fund shares
- United States governmental securities
- Options contracts on securities
- Options contracts on commodities
- Futures contracts on intangibles
- Interests in partnerships investing in real estate

Typically the financial plan is presented to the client within six months of the contract date, provided that all information needed to prepare the financial plan has been promptly provided.

Financial Planning recommendations are not limited to any specific product or service offered by a broker-dealer or insurance company.

### **CONSULTING SERVICES**

Clients can also receive investment advice on a more focused basis. This may include advice on only an isolated area(s) of concern such as estate planning, retirement planning, or any other specific topic. We also provide specific consultation and administrative services regarding investment and financial concerns of the client.

Consulting recommendations are not limited to any specific product or service offered by a broker-dealer or insurance company. All recommendations are of a generic nature.

### **AMOUNT OF MANAGED ASSETS**

As of 12/31/2010, we were actively managing \$32,011,730 of clients' assets on a discretionary basis.

## **Item 5 Fees and Compensation**

## **INVESTMENT SUPERVISORY SERVICES ("ISS") INDIVIDUAL PORTFOLIO MANAGEMENT FEES**

Our annual fees for Investment Supervisory Services are based upon a percentage of assets under management and generally range from 1.75% to 0.75%.

The annualized fee for Investment Supervisory Services are charged as a percentage of assets under management, according to the following schedule:

<b><u>Assets Under Management</u></b>	<b><u>Annual Fee</u></b>
\$250,000	\$4,375
500,000	7,500
2,250,000	28,125
7,000,000	70,000
10,000,000	75,000

Leonard Financial's advisory fees are not negotiable.

## **INVESTMENT SUPERVISORY SERVICES ("ISS") MODEL PORTFOLIO MANAGEMENT FEES**

Our annual fees for Model Portfolio Management Services are based upon a percentage of assets under management and generally range from 1.75% to 0.75%.

The annualized fee for Model Portfolio Management Services will be charged as a percentage of assets under management, according to the following schedule:

<b><u>Assets Under Management</u></b>	<b><u>Annual Fee</u></b>
\$250,000	\$4,375
500,000	7,500
2,250,000	28,125
7,000,000	70,000
10,000,000	75,000

Leonard Financial's advisory fees are not negotiable.

## **FINANCIAL PLANNING FEES**

Leonard Financial's Financial Planning fee is determined based on the nature of the services being provided and the complexity of each client's circumstances. All fees are agreed upon prior to entering into a contract with any client.

Our Financial Planning fees may be calculated and charged on an hourly basis, ranging from \$250 to \$300 per hour. Although the length of time it will take to provide a Financial Plan will depend on each client's personal situation, we will provide an estimate for the total hours at the start of the advisory relationship.

Our Financial Planning fees may be calculated and charged on a fixed fee basis, typically ranging from \$1,500 to \$3,000, depending on the specific arrangement reached with the client.

We may request a retainer upon completion of our initial fact-finding session with the client; however, advance payment will never exceed \$500 for work that will not be completed within six months. The balance is due upon completion of the plan.

The client is billed quarterly in advance based on our total estimated Financial Planning fees.

### **CONSULTING SERVICES FEES**

Leonard Financial's Consulting Services fee is determined based on the nature of the services being provided and the complexity of each client's circumstances. All fees are agreed upon prior to entering into a contract with any client.

Our Consulting Services fees are calculated and charged on an hourly basis, ranging from \$250 to \$300 per hour. An estimate for the total hours is determined at the start of the advisory relationship.

Our Consulting Services fees are calculated and charged on a fixed fee basis, typically ranging from \$1,500 to \$3,000, subject to the specific arrangement reached with the client.

Our Consulting Services fees are charged as a percentage of assets under advisement by our firm, typically ranging from 1.75% to 0.75% of assets under review, depending on the nature and complexity of each client's circumstances, and upon mutual agreement with the client.

The client is billed quarterly in advance based on our estimated Consulting Services fees.

### **GENERAL INFORMATION**

***Termination of the Advisory Relationship:*** A client agreement may be canceled at any time, by either party, for any reason upon receipt of **30** days written notice. ***[As disclosed above, certain fees are paid in advance of services provided.]*** Upon termination of any account, any prepaid, unearned fees will be promptly refunded. ***[In calculating a client's reimbursement of fees, we will pro rate the reimbursement according to the number of days remaining in the billing period.]***

***Mutual Fund Fees:*** All fees paid to Leonard Financial for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds and / or ETFs to their shareholders. These fees and expenses are described in each fund's prospectus. These fees will generally include a management fee, other fund expenses, and a possible distribution fee. If the fund also imposes sales charges, a client may pay an initial or deferred sales charge. A client could invest in a mutual fund directly, without our services. In that case, the client would not receive the services provided by our firm which are designed, among other things, to assist the client in determining which mutual fund or funds are most appropriate to each client's financial condition and objectives. Accordingly, the client should review both the fees charged by the funds and our fees to fully understand the total amount of fees to be paid by the client and to thereby evaluate the advisory services being provided.

***Wrap Fee Programs and Separately Managed Account Fees:*** Clients participating in

separately managed account programs may be charged various program fees in addition to the advisory fee charged by our firm. Such fees may include the investment advisory fees of the independent advisers, which may be charged as part of a wrap fee arrangement. In a wrap fee arrangement, clients pay a single fee for advisory, brokerage and custodial services. Client's portfolio transactions may be executed without commission charge in a wrap fee arrangement. In evaluating such an arrangement, the client should also consider that, depending upon the level of the wrap fee charged by the broker-dealer, the amount of portfolio activity in the client's account, and other factors, the wrap fee may or may not exceed the aggregate cost of such services if they were to be provided separately. We will review with clients any separate program fees that may be charged to clients.

***Additional Fees and Expenses:*** In addition to our advisory fees, clients are also responsible for the fees and expenses charged by custodians and imposed by broker dealers, including, but not limited to, any transaction charges imposed by a broker dealer with which an independent investment manager effects transactions for the client's account(s). Please refer to the "Brokerage Practices" section (Item 12) of this Form ADV for additional information.

***Grandfathering of Minimum Account Requirements:*** Pre-existing advisory clients are subject to Leonard Financial's minimum account requirements and advisory fees in effect at the time the client entered into the advisory relationship. Therefore, our firm's minimum account requirements will differ among clients.

***ERISA Accounts:*** Leonard Financial is deemed to be a fiduciary to advisory clients that are employee benefit plans or individual retirement accounts (IRAs) pursuant to the Employee Retirement Income and Securities Act ("ERISA"), and regulations under the Internal Revenue Code of 1986 (the "Code"), respectively. . As such, our firm is subject to specific duties and obligations under ERISA and the Internal Revenue Code that include among other things, restrictions concerning certain forms of compensation. To avoid engaging in prohibited transactions, Leonard Financial may only charge fees for investment advice about products for which our firm and / or our related persons do not receive any commissions or 12b-1 fees, or conversely, investment advice about products for which our firm and / or our related persons receive commissions or 12b-1 fees, however, only when such fees are used to offset Leonard Financial's advisory fees.

***Advisory Fees in General:*** Clients should note that similar advisory services may (or may not) be available from other registered (or unregistered) investment advisers for similar or lower fees.

***Limited Prepayment of Fees:*** Under no circumstances do we require or solicit payment of fees in excess of \$1,200 more than six months in advance of services rendered.

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

Leonard Financial does not charge performance-based fees.

## Item 7 Types of Clients

Leonard Financial provides advisory services to the following types of clients:

- Individuals (other than high net worth individuals)
- High net worth individuals
- Charitable organizations
- Other

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

### METHODS OF ANALYSIS

We use the following methods of analysis in formulating our investment advice and/or managing client assets:

**Technical Analysis.** We analyze past market movements and apply that analysis to the present in an attempt to recognize recurring patterns of investor behavior and potentially predict future price movement.

Technical analysis does not consider the underlying financial condition of a company. This presents a risk in that a poorly-managed or financially unsound company may underperform regardless of market movement.

**Asset Allocation.** Rather than focusing primarily on securities selection, we attempt to identify an appropriate ratio of securities, fixed income, and cash suitable to the client's investment goals and risk tolerance.

A risk of asset allocation is that the client may not participate in sharp increases in a particular security, industry or market sector. Another risk is that the ratio of securities, fixed income, and cash will change over time due to stock and market movements and, if not corrected, will no longer be appropriate for the client's goals.

**Mutual Fund and/or ETF Analysis.** We look at the experience and track record of the manager of the mutual fund or ETF in an attempt to determine if that manager has demonstrated an ability to invest over a period of time and in different economic conditions. We also look at the underlying assets in a mutual fund or ETF in an attempt to determine if there is significant overlap in the underlying investments held in another fund(s) in the client's portfolio. We also monitor the funds or ETFs in an attempt to determine if they are continuing to follow their stated investment strategy.

A risk of mutual fund and/or ETF analysis is that, as in all securities investments, past

performance does not guarantee future results. A manager who has been successful may not be able to replicate that success in the future. In addition, as we do not control the underlying investments in a fund or ETF, managers of different funds held by the client may purchase the same security, increasing the risk to the client if that security were to fall in value. There is also a risk that a manager may deviate from the stated investment mandate or strategy of the fund or ETF, which could make the holding(s) less suitable for the client's portfolio.

**Risks for all forms of analysis.** Our securities analysis methods rely on the assumption that the companies whose securities we purchase and sell, the rating agencies that review these securities, and other publicly-available sources of information about these securities, are providing accurate and unbiased data. While we are alert to indications that data may be incorrect, there is always a risk that our analysis may be compromised by inaccurate or misleading information.

## **INVESTMENT STRATEGIES**

We use the following strategy(ies) in managing client accounts, provided that such strategy(ies) are appropriate to the needs of the client and consistent with the client's investment objectives, risk tolerance, and time horizons, among other considerations:

**Long-term purchases.** We purchase securities with the idea of holding them in the client's account for a year or longer. Typically we employ this strategy when:

- we believe the securities to be currently undervalued, and/or
- we want exposure to a particular asset class over time, regardless of the current projection for this class.

A risk in a long-term purchase strategy is that by holding the security for this length of time, we may not take advantage of short-term gains that could be profitable to a client. Moreover, if our predictions are incorrect, a security may decline sharply in value before we make the decision to sell.

**Short-term purchases.** When utilizing this strategy, we purchase securities with the idea of selling them within a relatively short time (typically a year or less). We do this in an attempt to take advantage of conditions that we believe will soon result in a price swing in the securities we purchase.

**Short sales.** We borrow shares of a stock for your portfolio from someone who owns the stock on a promise to replace the shares on a future date at a certain price. Those borrowed shares are then sold. On the agreed-upon future date, we buy the same stock and return the shares to the original owner. We engage in short selling based on our determination that the stock will go down in price after we have borrowed the shares. If we are correct and the stock price has gone down since the shares were purchased from the original owner, the client account realizes the profit.

**Margin transactions.** We will purchase stocks for your portfolio with money borrowed from your brokerage account. This allows you to purchase more stock than you would be able to

with your available cash, and allows us to purchase stock without selling other holdings.

**Option writing.** We may use options as an investment strategy. An option is a contract that gives the buyer the right, but not the obligation, to buy or sell an asset (such as a share of stock) at a specific price on or before a certain date. An option, just like a stock or bond, is a security. An option is also a derivative, because it derives its value from an underlying asset.

The two types of options are calls and puts:

- A call gives us the right to buy an asset at a certain price within a specific period of time. We will buy a call if we have determined that the stock will increase substantially before the option expires.
- A put gives us the holder the right to sell an asset at a certain price within a specific period of time. We will buy a put if we have determined that the price of the stock will fall before the option expires.

We will use options to speculate on the possibility of a sharp price swing. We will also use options to "hedge" a purchase of the underlying security; in other words, we will use an option purchase to limit the potential upside and downside of a security we have purchased for your portfolio.

We use "covered calls", in which we sell an option on security you own. In this strategy, you receive a fee for making the option available, and the person purchasing the option has the right to buy the security from you at an agreed-upon price.

We use a "spreading strategy", in which we purchase two or more option contracts (for example, a call option that you buy and a call option that you sell) for the same underlying security. This effectively puts you on both sides of the market, but with the ability to vary price, time and other factors.

**Risk of Loss.** Securities investments are not guaranteed and you may lose money on your investments. We ask that you work with us to help us understand your tolerance for risk.

## **Item 9    Disciplinary Information**

We are required to disclose any legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management.

The following are disciplinary events relating to our firm and/or our management personnel:

### **STATEMENT OF THE CASE**

This case is about the adequacy of an investment adviser's disclosure to its clients concerning fees received under a shareholder servicing agreement. IMS/CPAs (hereinafter "IMS"), Vernon T. Hall ("Hall"), Stanley E. Hargrave ("Hargrave") and Jerome B. Vernazza ("Vernazza", and together with IMS, Hall and Hargrave, the "Appellants") provided disclosure that may not have been perfect. However, the fact that conflicting disclosures exist is

evidence of Appellants' lack of intent to mislead or deceive. Appellants' conduct, as evidenced by the record as a whole, clearly does not rise to the level of fraud or any statutory violation. Many of the underlying facts in this case are not in dispute. However, the United States Securities and Exchange Commission has affirmed findings not supported by the evidence as a whole.

IMS is the name under which Hall & Vernazza, CPAs ("Hall & Vernazza") conducted its advisory business. Treated as separate entities, the advisory and accounting arms of the partnership are nonetheless the same for purposes of this case.

Clients engage an investment adviser such as IMS for the purpose of securing investment advice and asset management on a "fee" basis, as opposed to paying for investment advice on a per transaction basis, as one would by engaging a broker dealer. IMS has never had a single customer complaint.

### **STATEMENT OF FACTS**

Appellant IMS is an investment adviser that has been registered with the United States Securities and Exchange Commission ("SEC" or "Commission") since 1988, the same year it was founded. (Joint Excerpt of Record, Administrative Proceedings, (hereinafter referred to as "JE", p 397). From 1988 to 1992, Hall and Hargrave were the principals of IMS. Hall has been practicing as a certified public accountant since 1967 (JE p.1 80), without customer complaint or disciplinary history. Hargrave was a principal of IMS from inception through the time of the events relevant to this case (JE p.1192), and has no prior disciplinary history. Vernazza joined IMS in 1992. (JE p .1186)

In 1991, World Money Managers, Inc., an investment adviser ("World"), formed the Tax-Planning Federal Cash Fund, a portfolio of the Qualified Investors Funds, Inc., an open-end mutual fund company registered as such with the Commission (the "Tax Fund") with Appellants. (JE p.1186)

The Tax Fund had become too small to operate efficiently (JE p.286). As a result, Appellants and World decided to close the Tax Fund in June of 1992. (JE p. 286-287)

If the costs related to the closing of the Tax Fund were absorbed by the Tax Fund, those of Appellants' clients that were Tax Fund shareholders would have directly borne the costs of closing the fund through a diminution of the net asset value of their Tax Fund. To avoid this, Appellants volunteered to pay the estimated costs of closing the Tax Fund (JE p. 287), though they were not legally obligated to do so.

World agreed to lend Appellants the estimated closing costs, and Terry Coxon, World's general partner (JE p.277) instructed World's counsel, Richard Rolnick, to prepare a promissory note ("Note") whereby World lent Hall & Vernazza \$60,000 (JE p. 1102) to pay for the costs of closing the Tax Fund (JE p. 79-80). Hall, Hargrave and Vernazza each individually guaranteed payment of the Note. (JE p.1103)



Appellants and World also contemplated the disposition of the shares of the Tax Fund with respect to how the shareholders of the Tax Fund would now invest their money. Mr. Coxon believed that “the investment that was most similar to what they already had was a portfolio in the Permanent Portfolio Family of Funds.” (JE p. 282-283) World was and is the investment adviser to the Permanent Portfolio Family of Funds, Inc. (“Permanent Portfolio”) (JE p. 275). According to Mr. Coxon’s testimony, the clients displaced by the closing of the Tax Fund needed service including an introduction to the Permanent Portfolio and subsequent shareholder servicing (JE p.282-283).

Rolnick suggested a shareholder servicing agreement (JE p. 903). A shareholder servicing agreement is an agreement whereby an investment adviser or mutual fund hires another adviser or consultant to provide services to both shareholders and non-shareholders. Services provided may include sales and marketing services (to obtain, additional fund investors) and services performed for existing shareholders. Appellants hoped the fees Hall & Vernazza earned under the Shareholder Servicing Agreement would pay off the Note (JE p. 1030), but they knew, and the Note reflects that if Hall & Vernazza didn’t earn enough fees under the Shareholder Servicing Agreement, payments on the Note would still be due and payable.

The purpose of the Shareholder Servicing Agreement was not to pay back the Note (JE p. 431). The Shareholder Servicing Agreement was not created to compensate Appellants for recommending the Permanent Portfolio (JE p. 289), or to generate commissions for Appellants. (JE p. 278) The purpose was, as World’s general partner stated, to provide services to the Permanent Portfolio (JE p. 282-283). This is confirmed by the document itself, which allows the Shareholder Servicing Agreement to be terminated with 60 days notice. (JE p. 1381)

The method of payment included in the modified Schedule 1 to the Shareholder Servicing Agreement provided that Hall & Vernazza would be paid “. . .for time, effort and complexity for services” in an amount not to exceed certain percentage of assets of “Agent Clients.” “Agent Clients” are shareholders in the Permanent Portfolio that became shareholders as a result of the efforts of Appellants. This percentage of assets of “Agent Clients” became the cap on the maximum payment. (JE p. 1384) This payment arrangement was not designed to always directly correlate with the amount of clients IMS referred to World. This arrangement was instead designed to accommodate World’s desire to have a cap on what World would have to pay Hall & Vernazza. (JE p. 974) If there were no cap on the amount paid to Appellants, World would not have been able to control the amount it paid for shareholder servicing.

Vernazza was the general partner of Hall & Vernazza in charge of doing the work related to the Shareholder Servicing Agreement (JE p. 440). In addition to hours spent performing work under the agreement related to speaking with shareholders and potential shareholders, Vernazza operated a booth to market the fund at an AICPA conference (JE p. 918), and obtained a listing of the Versatile Bond Portfolio of the Permanent Portfolio as an acceptable fund at Charles Schwab for trading purposes (JE p. 918). Vernazza also provided Permanent Portfolio applications to other CPAs, attorneys, financial planners and other persons (JE p. 929-930). This application was coded to indicate that the source of the investor was Hall &

Vernazza (JE p. 929- 930). As such, Appellants would have been given credit for a “Client” in the Shareholder Servicing Agreement, even though the individual investor was not an advisory client of IMS (JE p. 1384).

Hall, on two or three occasions, discussed, on the phone, with other investors’ advisers or CPAs the tax advantages of a fund using equalization accounting such as Permanent Portfolio did (JE p. 454). Mr. Hall was aware that if the Shareholder Servicing Agreement did not provide enough income to pay off the Note, any unpaid amount would still be due. (JE p. 440) Hargrave talked to two or three CPAs about the tax aspects of the Permanent Portfolio. He also discussed with Mr. Vernazza the design of marketing materials for the Permanent Portfolio (JE p. 677).

IMS submitted only one statement for services to World, because the statement submitted was for services that reached an amount far beyond the cap stated in the Shareholder Servicing Agreement. At the time the statement was generated, Vernazza had already devoted time to providing services under the Shareholder Servicing Agreement equal to approximately \$60,000 (JE p. 970). Because that amount exceeded the cap in the Shareholder Servicing Agreement, he merely requested payment on the maximum amount under the cap (JE p. 971).

Hall had not recommended that clients go into the Permanent Portfolio prior to June or July of 1992 because the Tax Fund had lower internal costs (JE p. 1024). Now that the Tax Fund was closing, clients in the Tax Fund needed an appropriate alternative, and the Permanent Portfolio was, according to Mr. Coxon, the “most similar to what they already had” (JE p. 282-283). Because of a decrease in interest rates at the time, Hall believed that the extended maturities of the securities held in the Versatile Bond Portfolio (a portfolio within the Permanent Portfolio) had the potential to enhance a client’s investment return while still maintaining the tax related advantages of the closing Tax Fund (JE p. 1018-1019). Hall only recommended the Permanent Portfolio to clients whose investment objectives or tax status were appropriate matches for the Permanent Portfolio (JE p. 1019).

Two of Hall’s clients invested in the Permanent Portfolio close to the time Hall & Vernazza entered into the Shareholder Servicing Agreement (JE pp. 556; 1024). Hall did not recommend that these two clients invest all of their assets in the Permanent Portfolio (JE p. 1020). Hargrave recommended that ten or less of his investment advisory clients invest in the Tax Fund (JE p. 592). Some of his clients’ funds that were invested in Tax Fund subsequently became invested in the Permanent Portfolio (JE p. 61.4), but the number of “Agent Clients” (the term used in the Shareholder Servicing Agreement, JE p. 1384) that were actually IMS clients was minimal.

One of Hargrave’s clients, Mrs. Mildred Lee, originally invested in the Tax Fund and then received a refund of her investment in the Tax Fund plus the interest she had earned (JE p. 375). Shortly thereafter, she invested some of her Tax Fund refund in the Permanent Portfolio (JE p. 376).

No client that the Riverside office that Appellants recommended the Permanent Portfolio to has ever lost any money in that investment (JE p. 1020).

The appropriate place for a disclosure of this type of arrangement is in the Form ADV and disclosure statements given to clients. Appellants did not “check the box” indicating that they recommended securities to clients in which it directly or through a related person had a sales interest (Part I, Item 21 of Form ADV), financial interest (Part II, Item 9D of Form ADV) or received an economic benefit in connection with giving advice to clients (Part II, Item 13A of Form ADV). At the time Hargrave prepared the amendment to Form ADV dated 9/30/92, (JE p. 1144- 1158), he understood the term “financial interest” to be an ownership interest (JE p.991-992). Unlike the term “related person”, there is no definition of what a “financial interest” or a “sales interest” is found in the ADV form (JE p. 1144-1158). At the time he prepared the amendment to Form ADV dated 9/30/92 (JE p. 1144-1158), Mr. Hargrave did not think the question’s intent included the Shareholder Servicing Agreement (JE p. 993). Hargrave understood that “applicant or a related person” in Part II, Question 13A of Form ADV would include IMS (JE p. 994). However, he didn’t think Question 13A included IMS’ receipt of shareholder servicing fees (JE p. 994) because he thought IMS was being paid for time and effort, not for rendering investment advice to clients (JE p. 994).

In their disclosure statement, Appellants stated that “Hall & Vernazza, CPAs of which Mr. Hall is a partner, is a Shareholder Services Agent to World Money Managers, the adviser to the Permanent Portfolio Family of Funds, Inc. Fees paid by World Money Managers to Hall & Vernazza or Hall and Hargrave are for advisory and administrative support services with respect to certain investors in any of the Permanent Portfolio Family of Funds” (JE p. 1152). The above was repeated in an amendment to Form ADV dated 9/28/92 filed with the Commission with the following added language: “Such services include, but are not limited to, client tax planning concerns and questions about the portfolios including tax aspects of an investment in the portfolio. Investment Advisor shall pay Hall & Vernazza for the time, effort and complexity of services” (JE p. 1166), the disclosure was repeated in an amendment to Form ADV dated 3/30/93 (JE p.1174). Appellants Hall and Hargrave gave their disclosure statements annually to existing clients when the clients renewed their engagement with IMS and to new clients when they became new clients (JE pp. 514-515). In addition to this written disclosure, clients were verbally advised of the Shareholder Servicing Agreement (JE pp. 755-757; p. 873; pp. 875-879). In fact, when questioned about whether they knew of the arrangement, all of the clients that testified at the administrative hearing indicated they had received written disclosure from Appellants about the arrangement with World, though they may not have read it.

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

Our firm and our related persons are not engaged in other financial industry activities and have no other industry affiliations.

Management personnel of our firm are also partners in the accounting firm of Vernon T Hall, CPA, where they are individually licensed and practicing Certified Public Accountants providing accounting services for separate and typical compensation.

Vernon T Hall, CPA typically recommends Leonard Financial to accounting clients in need of advisory services. Conversely, Leonard Financial may recommend Vernon T Hall, CPA to advisory clients in need of accounting services. Accounting services provided by Vernon T Hall, CPA are separate and distinct from our advisory services, and are provided for separate

and typical compensation. There are no referral fee arrangements between our firms for these recommendations. No Leonard Financial client is obligated to use Vernon T Hall, CPA for any accounting services and conversely, no accounting client is obligated to use the advisory services provided by us. Vernon T Hall, CPA's accounting services do not include the authority to sign checks or otherwise disburse funds on any of our advisory client's behalf.

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

Our firm has adopted a Code of Ethics which sets forth high ethical standards of business conduct that we require of our employees, including compliance with applicable federal securities laws.

Leonard Financial and our personnel owe a duty of loyalty, fairness and good faith towards our clients, and have an obligation to adhere not only to the specific provisions of the Code of Ethics but to the general principles that guide the Code.

Our Code of Ethics includes policies and procedures for the review of quarterly securities transactions reports as well as initial and annual securities holdings reports that must be submitted by the firm's access persons. Among other things, our Code of Ethics also requires the prior approval of any acquisition of securities in a limited offering (e.g., private placement) or an initial public offering. Our code also provides for oversight, enforcement and recordkeeping provisions.

Leonard Financial's Code of Ethics further includes the firm's policy prohibiting the use of material non-public information. While we do not believe that we have any particular access to non-public information, all employees are reminded that such information may not be used in a personal or professional capacity.

A copy of our Code of Ethics is available to our advisory clients and prospective clients. You may request a copy by email sent to [karl.hicks@leonardllc.com](mailto:karl.hicks@leonardllc.com), or by calling us at 951-781-7320.

Our Code of Ethics is designed to assure that the personal securities transactions, activities and interests of our employees will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts.

Our firm and / or individuals associated with our firm may buy or sell for their personal accounts securities identical to or different from those recommended to our clients. In addition, any related person(s) may have an interest or position in a certain security(ies) which may also be recommended to a client.

It is the expressed policy of our firm that no person employed by us may purchase or sell any security prior to a transaction(s) being implemented for an advisory account, thereby preventing such employee(s) from benefiting from transactions placed on behalf of advisory accounts.

We may aggregate our employee trades with client transactions where possible and when

compliant with our duty to seek best execution for our clients. In these instances, participating clients will receive an average share price and transaction costs will be shared equally and on a pro-rata basis. In the instances where there is a partial fill of a particular batched order, we will allocate all purchases pro-rata, with each account paying the average price. Our employee accounts will be included in the pro-rata allocation.

As these situations represent actual or potential conflicts of interest to our clients, we have established the following policies and procedures for implementing our firm's Code of Ethics, to ensure our firm complies with its regulatory obligations and provides our clients and potential clients with full and fair disclosure of such conflicts of interest:

5. No principal or employee of our firm may put his or her own interest above the interest of an advisory client.
6. No principal or employee of our firm may buy or sell securities for their personal portfolio(s) where their decision is a result of information received as a result of his or her employment unless the information is also available to the investing public.
7. It is the expressed policy of our firm that no person employed by us may purchase or sell any security prior to a transaction(s) being implemented for an advisory account and which allows such employees to benefit from transactions placed on behalf of advisory accounts.
8. Our firm requires prior approval for any IPO or private placement investments by related persons of the firm.
9. We maintain a list of all reportable securities holdings for our firm and anyone associated with this advisory practice that has access to advisory recommendations ("access person"). These holdings are reviewed on a regular basis by our firm's Chief Compliance Officer or his / her designee.
10. We have established procedures for the maintenance of all required books and records.
11. Clients can decline to implement any advice rendered, except in situations where our firm is granted discretionary authority.
12. All of our principals and employees must act in accordance with all applicable Federal and State regulations governing registered investment advisory practices.
13. We require delivery and acknowledgement of the Code of Ethics by each supervised person of our firm.
14. We have established policies requiring the reporting of Code of Ethics violations to our senior management.
15. Any individual who violates any of the above restrictions may be subject to termination.

## **Item 12 Brokerage Practices**

Leonard Financial requires that clients provide us with written authority to determine the broker-dealer to use and the commission costs that will be charged to our clients for these transactions.

Clients must include any limitations on this discretionary authority in this written authority statement. Clients may change / amend these limitations as required. Such amendments must be provided to us in writing.

As a matter of policy and practice, Leonard Financial does not generally block client trades and, therefore, we implement client transactions separately for each account. Consequently, certain client trades may be executed before others, at a different price and / or commission rate. Additionally, our clients may not receive volume discounts available to advisers who block client trades.

Leonard Financial may recommend or require that clients establish brokerage accounts with the Schwab Institutional division of Charles Schwab & Co., Inc. ("Schwab"), a FINRA registered broker-dealer, member SIPC, to maintain custody of clients' assets and to effect trades for their accounts. Although we recommend or require that clients establish accounts at Schwab, it is the client's decision to custody assets with Schwab. Leonard Financial is independently owned and operated and not affiliated with Schwab.

Schwab provides Leonard Financial with access to its institutional trading and custody services, which are typically not available to Schwab retail investors. These services generally are available to independent investment advisers on an unsolicited basis, at no charge to them so long as a total of at least \$10 million of the adviser's clients' assets are maintained in accounts at Schwab Institutional. These services are not contingent upon our firm committing to Schwab any specific amount of business (assets in custody or trading commissions). Schwab's brokerage services include the execution of securities transactions, custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment.

For our client accounts maintained in its custody, Schwab generally does not charge separately for custody services but is compensated by account holders through commissions and other transaction-related or asset-based fees for securities trades that are executed through Schwab or that settle into Schwab accounts.

Schwab Institutional also makes available to our firm other products and services that benefit Leonard Financial but may not directly benefit our clients' accounts. Many of these products and services may be used to service all or some substantial number of our client accounts, including accounts not maintained at Schwab.

Schwab's products and services that assist us in managing and administering our clients' accounts include software and other technology that

16. provide access to client account data (such as trade confirmations and account

statements);

17. facilitate trade execution and allocate aggregated trade orders for multiple client accounts;
18. provide research, pricing and other market data;
19. facilitate payment of our fees from clients' accounts; and
20. assist with back-office functions, recordkeeping and client reporting.

Schwab Institutional also offers other services intended to help us manage and further develop our business enterprise. These services may include:

- i. compliance, legal and business consulting;
- ii. publications and conferences on practice management and business succession; and
- iii. access to employee benefits providers, human capital consultants and insurance providers.

Schwab may make available, arrange and / or pay third-party vendors for the types of services rendered to Leonard Financial. Schwab Institutional may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to our firm. Schwab Institutional may also provide other benefits such as educational events or occasional business entertainment of our personnel. In evaluating whether to recommend or require that clients custody their assets at Schwab, we may take into account the availability of some of the foregoing products and services and other arrangements as part of the total mix of factors we consider and not solely on the nature, cost or quality of custody and brokerage services provided by Schwab, which may create a potential conflict of interest.

## **Item 13    Review of Accounts**

### **INVESTMENT SUPERVISORY SERVICES ("ISS") INDIVIDUAL PORTFOLIO MANAGEMENT**

**REVIEWS:** While the underlying securities within Individual Portfolio Management Services accounts are continually monitored, these accounts are reviewed at least quarterly. Accounts are reviewed in the context of each client's stated investment objectives and guidelines. More frequent reviews may be triggered by material changes in variables such as the client's individual circumstances, or the market, political or economic environment.

These accounts are reviewed by: Vernon T. Hall, CPA/PFS, CFP® and Karl L. Hicks, CFP®, MBA.

**REPORTS:** In addition to the monthly statements and confirmations of transactions that clients receive from their broker-dealer, we provide quarterly reports summarizing account

performance, balances and holdings.

### **INVESTMENT SUPERVISORY SERVICES("ISS") MODEL PORTFOLIO MANAGEMENT SERVICE**

**REVIEWS:** While the underlying securities within Model Portfolio Management Services accounts are continually monitored, these accounts are reviewed at least quarterly. Accounts are reviewed in the context of the investment objectives and guidelines of each model portfolio as well as any investment guidelines provided by the client. More frequent reviews may be triggered by material changes in variables such as the client's individual circumstances, or the market, political or economic environment.

These accounts are reviewed by: Vernon T. Hall, CPA/PFS, CFP® and Karl L. Hicks, CFP®, MBA.

**REPORTS:** In addition to the monthly statements and confirmations of transactions that clients receive from their broker-dealer, we provide quarterly reports summarizing account performance, balances and holdings. These reports will also remind the client to notify us if there have been changes in the client's financial situation or investment objectives and whether the client wishes to impose investment restrictions or modify existing restrictions.

### **FINANCIAL PLANNING SERVICES**

**REVIEWS:** While reviews may occur at different stages depending on the nature and terms of the specific engagement, typically no formal reviews will be conducted for Financial Planning clients unless otherwise contracted for.

**REPORTS:** Financial Planning clients will receive a completed financial plan. Additional reports will not typically be provided unless otherwise contracted for.

### **CONSULTING SERVICES**

**REVIEWS:** While reviews may occur at different stages depending on the nature and terms of the specific engagement, typically no formal reviews will be conducted for Consulting Services clients unless otherwise contracted for. Such reviews will be conducted by the client's account representative.

**REPORTS:** Consulting Services clients will not typically receive reports due to the nature of the service.

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

It is Leonard Financial's policy not to engage solicitors or to pay related or non-related persons for referring potential clients to our firm.



It is Leonard Financial's policy not to accept or allow our related persons to accept any form of compensation, including cash, sales awards or other prizes, from a non-client in conjunction with the advisory services we provide to our clients.

## **Item 15 Custody**

We previously disclosed in the "Fees and Compensation" section (Item 5) of this Brochure that our firm directly debits advisory fees from client accounts.

As part of this billing process, the client's custodian is advised of the amount of the fee to be deducted from that client's account. On at least a quarterly basis, the custodian is required to send to the client a statement showing all transactions within the account during the reporting period.

Because the custodian does not calculate the amount of the fee to be deducted, it is important for clients to carefully review their custodial statements to verify the accuracy of the calculation, among other things. Clients should contact us directly if they believe that there may be an error in their statement.

In addition to the periodic statements that clients receive directly from their custodians, we also send account statements directly to our clients on a quarterly basis. We urge our clients to carefully compare the information provided on these statements to ensure that all account transactions, holdings and values are correct and current.

Our firm does not have actual or constructive custody of client accounts.

## **Item 16 Investment Discretion**

Clients may hire us to provide discretionary asset management services, in which case we place trades in a client's account without contacting the client prior to each trade to obtain the client's permission.

Our discretionary authority includes the ability to do the following without contacting the client:

- determine the security to buy or sell; and/or
- determine the amount of the security to buy or sell

Clients give us discretionary authority when they sign a discretionary agreement with our firm, and may limit this authority by giving us written instructions. Clients may also change / amend such limitations by once again providing us with written instructions.

Leonard Financial requires that it be provided with written authority to determine which securities and the amounts of securities that are bought or sold in a client's account.

Clients give us discretionary investment authority when they sign a discretionary agreement

with our firm, and may limit this authority by giving us written instructions. Clients may also change / amend such limitations by once again providing us with written instructions.

## **Item 17    Voting Client Securities**

As a matter of firm policy, we do not vote proxies on behalf of clients. Therefore, although our firm may provide investment advisory services relative to client investment assets, clients maintain exclusive responsibility for: (1) directing the manner in which proxies solicited by issuers of securities beneficially owned by the client shall be voted, and (2) making all elections relative to any mergers, acquisitions, tender offers, bankruptcy proceedings or other type events pertaining to the client's investment assets. Clients are responsible for instructing each custodian of the assets, to forward to the client copies of all proxies and shareholder communications relating to the client's investment assets.

We may provide clients with consulting assistance regarding proxy issues if they contact us with questions at our principal place of business.

## **Item 18    Financial Information**

Under no circumstances do we require or solicit payment of fees in excess of \$1,200 per client more than six months in advance of services rendered. Therefore, we are not required to include a financial statement.

As an advisory firm that maintains discretionary authority for client accounts we are also required to disclose any financial condition that is reasonable likely to impair our ability to meet our contractual obligations. Leonard Financial has no additional financial circumstances to report.

Leonard Financial has not been the subject of a bankruptcy petition at any time during the past ten years.