

Hopwood Financial Services, Inc.

10135 Colvin Run Road, Suite 210

Great Falls, VA 22066

703-787-0008

www.hopwoodfinancial.com

Part 2A of Form ADV The Brochure

Updated: March 2011

This brochure provides information about the qualifications and business practices of Hopwood Financial Services, Inc. (“HFS” or “Advisor”). If you have any questions about the contents of this brochure, please contact us at 703-787-0008 or by e-mail at herb@hopwoodfinancial.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 Hopwood Financial Services, Inc. is also available on the SEC’s website at: www.adviserinfo.sec.gov.

Material Changes

Hopwood Financial Services, Inc.'s most recent update to Part 2 of Form ADV was made as of December 31, 2010. Our business activities have not changed materially since the time of that update. However, in 2010 the SEC required significant changes to the content and format of Part 2 of Form ADV. This brochure, which reflects those changes, is materially different from brochures used by Hopwood Financial in prior years.

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Advisory Business

Hopwood Financial Services provides customized investment management and financial planning services primarily to high-net-worth individuals and associated trusts, estates, IRAs, pension and profit sharing plans, and other legal entities. Hopwood Financial generally invests client assets in domestic and international stocks, bonds, mutual funds, and exchange traded funds ("ETFs").

Hopwood Financial works with each client to establish an appropriate investment profile. Clients choose from various allocations of equities, fixed income and cash, and can impose reasonable restrictions on HFS's management of their accounts which are mutually agreed upon in advance.

Hopwood Financial Services was founded in 2003 and is currently 100% owned by Herbert G. Hopwood. As of December 31, 2010, Hopwood Financial managed \$174,286,506 on a discretionary basis and \$6,437,901 on a non-discretionary basis on behalf of approximately 132 client households.

Fees and Compensation

Investment Management

Hopwood Financial's current fee schedule for new clients for investment management services is based on the following schedule:

<u>Assets under management</u>	<u>Annual Fee</u>
First \$1 million	1.00%
Amounts in excess of \$1 million & up to \$4 million	0.50%
Amounts in excess of \$4 million & up to \$6 million	0.40%
Amounts in excess of \$6 million & up to \$10 million	0.30%
Amounts in excess of \$10 million	0.25%

This is a **tiered** fee schedule which means that the actual fee is charged on each amount at the respective rate and is only reduced for the amount **above** that threshold.

Hopwood Financial Services charges fees **quarterly** in *arrears* (for the quarter most recently ended) based on the account/relationship value (total assets of a relationship residing in the same residence) at the *end* of the quarter. Investment management services begin when assets begin to fund the account. For the beginning calendar quarter, fees will be adjusted pro-rata based upon the number of calendar days in the calendar quarter that the agreement was effective. Most clients authorize Hopwood Financial to deduct fees automatically from their brokerage accounts, but clients may request that HFS send quarterly invoices to be paid by check. In either case, a copy of the bill is provided to each client stating the amount that was charged and how the fee was calculated.

The Advisor reserves the right to charge a new account processing fee of up to \$350 to defray the cost of transfers, paperwork and the monitoring of transfers from existing accounts. Calculation of distributions, issuance of checks, special reports and other services, which are not routine investment management services, may be billed on an hourly basis at the then prevailing rates (current maximum of \$250/hour). All fees are to be billed and are due after services are rendered.

HFS has waived or negotiated lower fees for certain clients such as charitable organizations, employees' family members or special circumstances.

Either the client or the Advisor may terminate the agreement at any time. The client is responsible to pay for services rendered up until the termination of the Agreement. If a client terminates the Investment Management Agreement with Hopwood Financial in the middle of a billing period, HFS will invoice the client and deduct the applicable fee (unless notified otherwise) for an amount that is pro-rated based on the number of days that the account was managed during the quarter.

If a client contributes or withdraws \$50,000 or more in a given **day**, HFS will pro-rate the fees on this contribution or withdrawal for the quarter. Contributions and withdrawals of **less than** \$50,000 in a given day are not pro-rated.

In addition to Hopwood Financial Services' investment management fees, clients bear trading costs and custodial fees. To the extent that clients' accounts are invested in mutual funds, these funds charge a separate layer of management, trading, and administrative expenses.

Personal Financial Planning and Consulting Services

Personal financial planning and consulting service fees are generally charged on an hourly basis. Hourly fees range from \$250 per hour for most financial planning services to \$100 per hour for purely administrative functions. Such fees shall be mutually agreed upon in advance by the client and Advisor and shall be due and payable when services are rendered.

A client may cancel the financial planning agreement and receive a full refund if Advisor is notified within five business days after signing an agreement. If cancellation occurs thereafter, the client is responsible only for fees and expenses incurred to that point. In such an event, an itemized invoice will be provided documenting the expenses that have been incurred.

Performance Based Fees and Side-by-Side Management

Hopwood Financial Services, Inc. does not use a performance-based fee structure because of the potential conflict of interest. Performance-based compensation may create an incentive for the adviser to recommend an investment that may carry a higher degree of risk to the client. However, the nature of asset-based fees allows Hopwood Financial to participate in the growth of the client's wealth. This also means that our fees can decline when the client's portfolio declines in value.

Types of Clients

Hopwood Financial generally provides customized investment management and financial planning services to high-net-worth individuals and associated trusts, estates, pension and profit sharing plans, and other legal entities. Hopwood Financial's minimum relationship size for Investment Management services is generally **\$500,000**, but this amount may be negotiable. There is no minimum asset size for Financial Planning services.

Methods of Analysis, Investment Strategies and Risk of Loss

There is an Investment Committee currently comprised of Herbert G. Hopwood, CFP®, CFA®, President; Joni R. Alt, CFP®, Director of Financial Planning and Portfolio Manager; and Eric F. Randolph, Director of Fixed Income and Portfolio Manager. Most individual stock and stock mutual fund securities are placed on Hopwood Financial's approved list after being reviewed and accepted by the Investment Committee. This analysis varies depending on the security in question. For stocks and bonds, the analysis generally includes a review of:

- The issuer's management;
- The amount and volatility of past profits or losses;
- The issuer's assets and liabilities, as well as any material changes from historical norms;

- Prospects for the issuer's industry, as well as the issuer's competitive position within that industry; and
- Any other factors considered relevant.

For mutual funds and ETFs the analysis generally includes a review of:

- The fund's management team;
- The fund's historical risk and return characteristics;
- The fund's exposure to sectors and individual issuers;
- The fund's fee structure; and
- Any other factors considered relevant.

The Investment Committee meets regularly to discuss existing and prospective investments and the investment environment. Investments are evaluated independently, as well as in the context of clients' existing holdings and sector exposures.

Hopwood Financial strives to invest for relatively long time horizons, often for several years. However, market developments could cause us to reduce this holding period.

Depending on a client's investment objectives, HFS might engage in option writing (although not likely). The use of option writing poses additional risks that are discussed in detail with any clients who are considering the use of this investment vehicle.

All investing involves a risk of loss.

Disciplinary Information

Hopwood Financial and its employees have not been involved in any legal or disciplinary events in the past 10 years that would be material to a client's evaluation of the company or its personnel.

Other Financial Industry Activities and Affiliations

Hopwood Financial Services and its employees do not have any relationships or arrangements with other financial services companies that pose material conflicts of interest.

Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Hopwood Financial has adopted a written Code of Ethics that is applicable to all employees. Among other things, the code requires the firm and its employees to act in clients' best interests, abide by all applicable regulations, avoid even the appearance of insider trading, and pre-clear and report on many types of personal securities transactions. Hopwood Financial's restrictions on

personal securities trading apply to employees, as well as employees' family members living in the same household. A copy of Hopwood Financial's Code of Ethics is available upon request.

The firm's employees are generally permitted to trade alongside client accounts as long as they receive the average price that is applicable to clients and pay their share of any transaction costs. However, no employees are allowed to participate in partially filled orders until all clients' orders have been filled. The Chief Compliance Officer monitors employee trading, relative to client trading, to ensure that employees do not engage in improper transactions.

The firm maintains a watch list of securities that are being considered for client accounts, as well as securities already held in client accounts. Any proposed employee transaction involving securities on the watch list requires pre-clearance from the Chief Compliance Officer. The Chief Compliance Officer does not grant pre-clearance where it would appear that an employee's trading could disadvantage Hopwood Financial's clients.

Under certain circumstances an employee might invest in a security that is not considered suitable for client accounts because of size, liquidity, or other factors. A change in these factors could result in the security becoming more suitable for clients, but the Chief Compliance Officer might not allow the security to be purchased for client accounts in order to avoid even the appearance of employees trading ahead of clients. In Hopwood Financial's experience, it is rare for an employee's personal trading to limit clients' investment opportunities, but such a situation may arise from time to time.

Brokerage Practices

Hopwood Financial generally recommends that clients arrange for their assets to be held with either Charles Schwab Institutional or Fidelity Institutional as custodian. HFS has managed client assets at both custodians for many years and has found them both to offer good services at competitive prices.

Soft Dollar Benefits

HFS receives certain products and services from both Charles Schwab Institutional and Fidelity Institutional free of charge or at discounted rates. These products and services include:

- The receipt of duplicate client confirmations, statements, and other account information;
- Direct advisory fee debiting capabilities;
- Access to an electronic network for order entry, including the simultaneous entry of trades on behalf of multiple client accounts;
- A portfolio management system and software that supports the management of client accounts.

Hopwood Financial does not believe that clients whose accounts are held by Charles Schwab Institutional or Fidelity Institutional bear any additional costs in connection with our receipt of the products and services. Hopwood Financial Services does not receive any commissions or fees for

any of our investment recommendations. Furthermore, each custodian's provision of these products and services is not contingent upon us formally committing any specific amount of business to them. However, Hopwood Financial would not receive some of these products and services if client accounts were not held in custody and traded by either custodian. Hopwood Financial's receipt of these products and services creates a potential conflict of interest in connection with our recommendation of each custodian. Also, some of the products and services listed above benefit clients whose accounts are held by other custodians, which could create a conflict of interest between the clients at the custodians, who are indirectly paying for the products and services, and the clients at other custodians who may benefit from the products and services.

The Selection of Trading Counterparties

Hopwood Financial can typically trade accounts held at Charles Schwab Institutional and Fidelity Institutional using other broker/dealers. However, each custodian charges clients "trade-away" fees that HFS believes often outweigh any benefits from trading stocks, mutual funds or ETFs with other brokers. The availability and pricing of bonds varies more widely, so prior to placing a bond trade, HFS attempts to determine the competitiveness of the price (and yield) and then executes the trade with the dealer that offers sufficient liquidity and the most favorable pricing.

For clients who elect to have their accounts held by firms other than Charles Schwab or Fidelity Investments, Hopwood Financial's approach is often to trade stocks, mutual funds, and ETFs with the chosen custodian, and to trade bonds with the dealer that offers sufficient liquidity and the most favorable pricing (if possible).

Some clients' accounts are relatively small, in which case the custodian may not allow us to trade through other firms. Other clients may specifically request that their accounts only be traded through a particular broker/dealer. HFS trades these accounts through the firm chosen by the client, which limits our ability to seek best execution. Trading restrictions may result in materially higher trading costs and reduced returns.

Best Execution Reviews

On at least an annual basis Hopwood Financial's Chief Compliance Officer evaluates the pricing and services offered by both Charles Schwab Institutional and Fidelity Institutional and other trading counterparties with those offered by other reputable firms. Hopwood Financial Services has sought to make a good-faith determination that each custodian and other chosen trading counterparties provide clients with good services at competitive prices. However, clients should be aware that this determination could have been influenced by our receipt of products and services from the respective custodian. Historically, Hopwood Financial has concluded that our two primary custodians are as good as, or better than, the other firms that have been considered. We would notify our clients if we were to determine that another firm offered better pricing and services than Schwab Institutional and Fidelity Institutional.

Aggregated Trades

Hopwood Financial often aggregates client trades in an effort to treat all clients fairly. Clients participating in a bunched order receive the same average price and incur trading costs that are the same as would be paid if they were trading individually. Employees may be included side-by-side

in bunched client trades. If an order is partially filled, clients will have their orders fully filled on a randomized basis; Hopwood Financial will seek to complete any unfilled client orders on the next trading day. Employees are excluded from bunched trades whenever client orders are only partially filled.

When trading accounts through our custodians and one or more other broker/dealers, Hopwood Financial's trader may choose to place smaller trades ahead of larger trades when the smaller trades are not expected to materially affect the price or liquidity of the security in question. This practice may result in accounts held at our current custodians trading after other accounts with disproportionate frequency. It is possible that, over time, this practice could result in clients whose accounts trade through other broker/dealers experiencing a benefit at the expense of the Schwab and Fidelity accounts.

Client Referrals

Hopwood Financial does **not** compensate Charles Schwab Institutional or Fidelity Institutional or any other custodian or broker/dealer for referring client accounts.

Review of Accounts

Accounts under Hopwood Financial's management are monitored on an ongoing basis by portfolio managers. In addition, certain Investment Committee members and the Chief Compliance Officer will periodically review the portfolios. Certain Investment Committee members review each account in detail on at least an annual basis, as well as in connection with each client meeting. On at least a quarterly basis certain Investment Committee members and the Chief Compliance Officer review a number of reports that are designed to identify accounts that are outside the expected ranges for returns, exposure to asset classes, and exposure to industry sectors. Reviews of client accounts will also be triggered if a client changes his or her investment objectives, or if the market, political, or economic environment changes materially.

Clients receive account statements directly from their chosen custodian on a monthly basis in addition to confirmations of every trade. Hopwood Financial Services provides our own quarterly reports that supplement the custodial statements from the respective brokerage firm where their assets are held.

Client Referrals and Other Compensation

Other than the previously described products and services that we receive from Charles Schwab Institutional and Fidelity Institutional, Hopwood Financial does **not** receive any other economic benefits from non-clients (including outside professionals) in connection with the provision of investment advice and financial planning to clients.

Custody

All clients' accounts are held in custody by unaffiliated broker/dealers or banks, but Hopwood Financial can access many clients' accounts through its ability to debit advisory fees. For this reason, and in very unique situations which are fully disclosed such as outside 401-k plans, Hopwood Financial Services is considered to have custody of client assets. Account custodians send statements directly to the account owners on either a monthly or quarterly basis. Clients

should carefully review these statements, and should compare these statements to any account information provided by Hopwood Financial.

Investment Discretion

Hopwood Financial Services has investment discretion over all clients' accounts unless specifically restricted in our agreement with the client. Clients grant us trading discretion through the execution of a limited power of attorney included in Hopwood Financial's advisory contract.

Clients can place reasonable restrictions on Hopwood Financial's investment discretion. For example, some clients have asked us not to buy securities issued by companies in certain industries, or not to sell certain securities where the client has a particularly low tax basis. If this is applicable, this must be agreed to in advance and in writing.

Voting Client Securities

In accordance with its fiduciary duty to clients and Rule 206(4)-6 of the Investment Advisers Act, HFS has adopted and implemented written policies and procedures governing the voting of client securities. Hopwood Financial Services does **not** vote proxies on behalf of clients. This is the sole responsibility of each respective client.

Financial Information

Hopwood Financial Services has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts.