

# Wrap Fee Brochure

## Wealth Management Program

April 26, 2011

### **Phillips Financial Management, LLC**

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This wrap fee brochure provides information about the qualifications and business practices of Phillips Financial Management, LLC (hereinafter "PFM"). If you have any questions about the contents of this brochure, please contact Jeanine M. Herold at (260) 420-7732. 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 Phillips Financial Management, LLC is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Phillips Financial Management, LLC is an SEC registered investment adviser. Registration does not imply any level of skill or training.

## **Item 2. Material Changes**

This Item discusses only the material changes in the Wealth Management Program that have occurred since PFM's last annual update dated March 31, 2011. As of May 1, 2011, PFM and its representatives no longer have any affiliation with Cambridge Investment Research.

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## Item 4. Services, Fees, and Compensation

The Phillips Financial Wealth Management Program (the “Program”) is an investment advisory program sponsored by PFM. The Program provides clients with the ability to trade in certain investment products without incurring separate brokerage commissions or transaction charges.

To join the Program, a client must:

- (1) Complete an investor profile that describes the client’s financial needs, investment objectives, time horizon, and risk tolerance, as well as any other factors relevant to the client’s specific financial situation and any other supporting documentation the Program requires;
- (2) Complete the investment advisory wrap fee agreement (the “*Program Agreement*”) with PFM;
- (3) Complete a new account agreement with Fidelity Institutional Wealth Services (“*Fidelity*”) or another custodian broker dealer approved by Phillips for participation in the Program (“*Financial Institution*”) and
- (4) Open a securities brokerage account with the *Financial Institution* and deposit those assets designated for participation in the Program into the account.

After an analysis of any information provided by the client to PFM, PFM assists the client in developing an appropriate investment strategy for the assets in their accounts. Thereafter, all clients are encouraged to discuss their needs, goals, and objectives with PFM and to keep PFM informed of any changes thereto. PFM contacts ongoing clients at least annually to review its previous services and/or recommendations and to determine whether changes should be made to their investment strategy.

### Management of Your Portfolio

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All clients in the Program grant PFM discretionary authority to buy, sell, and otherwise trade in the type of securities described in Item 6, below for their accounts and to liquidate previously-purchased securities that the client has transferred to their Accounts. Assets are managed by one of PFM’s investment adviser representatives.

### Fees for the Program

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Clients in the Program pay a single annualized fee for participation in the Program (the “*Program Fee*”). The *Program Fee* is prorated and charged quarterly, in advance, based upon the market value of the assets being managed by PFM on the last day of the previous quarter. The *Program Fee* varies (between 0.35% and .70%) depending upon the market value of the assets under management, as follows:

## Phillips Financial Management, LLC Wealth Management Program

PORTFOLIO VALUE	ANNUAL FEE
\$500,000 - \$749,999	0.70%
\$750,000 - \$999,999	0.65%
\$1,000,000 - \$1,999,999	0.60%
\$2,000,000 - \$2,999,999	0.55%
\$3,000,000 - \$3,999,999	0.50%
\$4,000,000 - \$4,999,999	0.45%
\$5,000,000 - \$9,999,999	0.40%
\$10,000,000 and over	0.35%

Additional deposits and withdrawals of funds and/or securities to the Program may be made to the Account at any time. Program Fees are calculated *pro rata* for partial billing periods based upon the value of the assets in the Account and the number of days in the calendar quarter. PFM reserves the right to terminate participation in the Program if the Client's Account falls below its minimum Account size. If the Program is terminated, the Program Fee will be assessed *pro rata* and refunded to the Client in a timely manner. If assets are deposited into or withdrawn from an account after the inception of a quarter that exceed \$50,000, the fee payable with respect to such assets will be prorated based on the number of days remaining in the quarter. For partial withdrawals in excess of \$50,000 within a billing period, the unearned fee with respect to such assets will be adjusted based on the number of days remaining in the quarter, and refunded to the client's account. However, additions or withdrawals occurring on or after the 15<sup>th</sup> day of the final month of a quarter (i.e. the final 15 or 16 days of any given quarter, as applicable) will not be subject to being adjusted or prorated.

PFM's Program Agreement and Client's agreement with the Custodian may authorize the Custodian to deduct the Program Fee from the Client's Account and remit it directly to PFM. In arrangements where the Program Fee is deducted directly from the Client's Account, PFM will instruct the Custodian to send the Participant a statement, at least quarterly, indicating all amounts disbursed from their Account, including the amount of the Program Fee paid directly to PFM.

### Fee Comparison

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Under the Program, clients receive both investment advisory services and the execution of transactions for a single, combined annualized fee, the *Program Fee*. Participation in the Program may cost the client more or less than purchasing such services separately. The number of transactions made in the client's accounts, as well as the commissions charged for each transaction, determines the relative cost of the Program versus paying for execution on a per transaction basis and paying a separate fee for advisory services. The *Program Fee* may be higher or lower than fees charged by other sponsors of comparable investment advisory programs.

## **Other Charges**

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Clients may incur certain charges imposed by third parties in addition to the *Program Fee*, such as charges imposed directly by a mutual fund or exchange-traded fund in the account, which is disclosed in the fund's prospectus (e.g., fund management fees and other fund expenses), deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions.

## **Item 5. Account Requirements and Types of Clients**

The Program participants include individuals, pension and profit sharing plans, trusts, estates, charitable organizations, corporations and business entities.

## **Item 6. Portfolio Manager Selection and Evaluation**

PFM acts as the sponsor and portfolio manager to the Program. Certain wrap programs involve the services of multiple parties in these capacities, which may involve additional conflicts of interest that the sponsor would be required to disclose in this section. PFM has no disclosures to make under this section.

## **Performance-Based Fees and Side-by-Side Management**

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

## **Advisory Business**

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PFM provides financial planning, consulting, and investment management services outside of the Program.

### ***Financial Planning and Consulting Services***

PFM may provide its clients with a broad range of comprehensive financial planning and consulting services. These services include business planning, retirement, education, estate planning, pension consulting, and cash flow needs of the client.

In performing its services, PFM is not required to verify any information received from the client or from the client's other professionals (e.g., attorney, accountant, etc.) and is expressly authorized to rely on such information. The client is under no obligation to act upon any of the recommendations made by PFM under a financial planning or consulting engagement or to engage the services of any such recommended professional, including PFM itself. The client retains absolute discretion over all such implementation decisions and is free to accept or reject any of PFM's recommendations. Clients are advised that it remains their responsibility to promptly notify PFM if there is ever any change in their

financial situation or investment objectives for the purpose of reviewing, evaluating, or revising PFM's previous recommendations and/or services.

## ***Investment Management Services***

Clients can engage PFM to manage all or a portion of their assets on a discretionary basis.

PFM primarily allocates clients' investment management assets among mutual funds, exchange-traded funds ("ETFs") and individual debt securities. Certain types of options as well as the securities components of variable annuities and variable life insurance contracts are occasionally implemented in accordance with the investment objectives of the client.

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

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

## ***Educational Services***

PFM may provide non-personalized investment-related training to certain institutional clients as part of its educational services. PFM's institutional educational services generally address issues involving employee participation in an employer-sponsored retirement plan. PFM may charge a fixed and/or hourly fee for these services. Should any of the employer's participants later engage PFM to render additional services, such work will be done pursuant to a separate written agreement between the employer's participant and PFM, independent of the employer's engagement for educational services.

## ***Method of Analysis***

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### ***Investment Selection Process***

PFM's Chief Investment Officer, in conjunction with PFM's Investment Committee, are responsible for monitoring investment research and initiating discussion on topics that may cause PFM to review its philosophy and strategy. For example, PFM periodically reviews the asset classes that are included in its model portfolios. As a result, over the years PFM has added some sub-asset classes for consideration in certain types of portfolios.

PFM's Investment Committee also reviews market and industry trends to determine if any other types of changes should be made to PFM's strategies. In general, PFM does not advocate making large changes in the client allocation and rebalancing process because of current market volatility. However, PFM is conscious of the potential impact of current and projected market conditions on client portfolios and determines how to manage client expectations and modify holdings where appropriate.

In addition, PFM periodically reviews the acceptable indices to be used to assess the performance of the market, such as S&P, MSCI, Wilshire, etc. PFM reviews literature discussing the pros and cons of various index construction methods to determine which indices most appropriately reflect the performance of the market.

PFM also reviews the specific fund companies and funds to be used. As a result, PFM has developed a list of funds that are generally (but not exclusively) selected for client portfolios. PFM's review of funds is based on various factors, such as quality and expertise of the fund company, expense ratio, consistency in tracking the index, stated objective of the fund (especially for non-index funds), tenure of the fund, and the index being tracked. PFM allows its investment adviser representatives to choose the specific funds for each account.

In conducting research, PFM utilizes industry publications, websites, prospectuses, and research papers. However, PFM does not engage in technical analysis as this is not consistent with PFM's philosophy.

### **Investment Strategies**

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#### *Investment Philosophy*

PFM follows an investment philosophy of passive investing using ETFs and mutual funds that track a specific index. PFM also utilizes individual bonds and certificates of deposits for larger portfolios, as well as low-cost bond mutual funds that are structured similar to a buy-and-hold ladder bond portfolio.

PFM's review of studies and research indicates that achieving returns that are better than market performance (i.e. "beating" the market) occurs infrequently and unsystematically. Furthermore, such attempts to "beat" the market often result in performance that is below the average market return. Therefore, PFM strives to achieve average market performance (as measured by widely recognized indices) through consistent exposure to broad market indices. This approach allows for low-cost investing, as there are lower expenses associated with research, administration and transaction fees (due to less frequent trading). This approach also can be more tax efficient than active management approaches.

#### *Management Process*

Through the use of a Risk Tolerance Questionnaire, review of a client's financial situation, and discussions with the client, PFM selects the model portfolio that most closely matches the client's needs.



Many client portfolios are managed very similarly to one of the models. However, PFM may make adjustments to the model portfolio based on the client's specific needs.

In managing client portfolios, PFM starts with a group of model portfolios developed and redesigned over the course of several years. The model portfolios specify target percentages for broad asset classes (such as U.S. stocks, international and emerging markets stocks, and fixed income). PFM does not allocate according to narrow sectors or highly specified regions. However PFM does utilize sub asset classes like small and mid-size stocks, and high yield versus investment grade bonds, as well as different bond maturities.

The types of securities used in client portfolios include mutual funds, ETFs and individual bonds and certificates of deposit. Occasionally, a variable annuity is used if a particular client has a nonqualified annuity with significant gain. Also, PFM will permit individual stocks to be held in managed accounts, but will only provide advice to the extent of assisting the client diversify out of the positions over time. PFM does not provide research or due diligence on individual company stocks. The decision to sell the individual stock is ultimately the client's decision.

PFM manages client portfolios within acceptable tolerance levels. Generally if a particular asset class becomes more than 25% out of range of the target percentage, it will be rebalanced. However, this is not an automatic process. Meetings are held at least annually with each client, at which time accounts are rebalanced as appropriate. In addition, accounts are reviewed quarterly. Tax consequences may be considered when initiating transactions in client accounts, depending on the client's particular needs and circumstances. In some accounts, there are concentrated individual stock positions at the client's request, which may skew allocations.

Although PFM may utilize model portfolios as a starting point for developing an appropriate strategy for the client, PFM does not take an automated, one-size-fits-all, approach to managing accounts. Client accounts are managed individually by specific investment adviser representatives in the firm. As such, no promises are made that accounts of similarly situated individuals are managed in "the same" manner. Investment adviser representatives have the freedom to choose among a variety of funds. PFM is committed to using low-cost funds, while not necessarily the cheapest fund, in every category. While preferences for different funds and indices change and evolve over time, PFM does not automatically sell a particular security because of a change in preference. PFM does not trade in blocks.

### **Risks of Loss**

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

An investment in a mutual fund or ETF involves risk, including the loss of principal. Mutual fund and ETF shareholders are necessarily subject to the risks stemming from the individual issuers of the fund's underlying portfolio securities. Such shareholders are also liable for taxes on any fund-level capital gains,

as mutual funds and ETFs are required by law to distribute capital gains in the event they sell securities for a profit that cannot be offset by a corresponding loss.

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

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

### *Market Risks*

All securities, particularly individual equity and debt securities are subject to market volatility, economic factors and certain other market risks. The success of an investment may depend to a great extent upon correctly assessing the future course of price movements of stocks and bonds. In accordance with its independent philosophy, PFM makes no attempt to predict price movements or to "time" the purchase and sale of securities accordingly.

### *Management Through Similarly Managed Accounts*

PFM manages portfolios by allocating portfolio assets among various securities using one or more of its proprietary investment strategies (collectively referred to as "*investment strategy*"). In so doing, PFM buys, sells, exchanges and/or transfers securities based upon the *investment strategy*.

PFM's management using the *investment strategy* complies with the requirements of Rule 3a-4 of the Investment Company Act of 1940, as amended. Rule 3a-4 provides similarly managed accounts, such as the *investment strategy*, with a safe harbor from the definition of an investment company.

Tax consequences may be considered when initiating transactions in client accounts, depending on the client's particular needs and circumstances.

### *General Risk of Loss*

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

## **Voting of Client Securities**

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PFM is required to disclose if it accepts authority to vote client securities. PFM does not vote client securities on behalf of its clients. Clients receive proxies directly from the *Financial Institutions*.

## **Item 7. Client Information Provided to Portfolio Managers**

PFM acts as the sponsor and portfolio manager to the Program. Certain wrap programs involve the services of multiple parties in these capacities. In those circumstances, the sponsor is required to disclose how and what type of information about client that it provides to portfolio managers. PFM has no disclosures to make under this section.

## **Item 8. Client Contact with Portfolio Managers**

There are no restrictions on a clients' ability to contact and consult with PFM.

## **Item 9. Additional Information**

### **Disciplinary Information**

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

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

### **Receipt of Insurance Commission**

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PFM is under common control with Phillips Financial Services, Inc., a duly licensed insurance agency. Certain of PFM's *Supervised Persons*, in their individual capacities, are also licensed insurance agents with Phillips Financial Services, Inc., as well as other insurance companies, and in such capacity, may recommend, on a fully-disclosed commission basis, the purchase of certain insurance products. While PFM does not sell such insurance products to its investment advisory clients, PFM does permit its *Supervised Persons*, in their individual capacities as licensed insurance agents, to sell insurance products to its investment advisory clients. A conflict of interest exists to the extent that PFM recommends the purchase of insurance products where PFM's *Supervised Persons* receive insurance commissions or other additional compensation.

## Fiduciary Training Program

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PFM may provide non-personalized fiduciary training seminars to certain clients and potential referral sources. PFM's fiduciary training seminars generally address best practices for properly meeting the fiduciary standard of care. PFM will charge a fixed fee for these seminars and may offer these services to its investment advisory clients. A conflict of interest exists to the extent that clients may select PFM based solely on its status as an instructor on the fiduciary standard of care rather than other criteria. PFM may accept referrals of advisory clients from those persons engaging PFM for fiduciary training seminars.

## Code of Ethics

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PFM does not buy nor sell for itself securities that it also recommends to clients. However, persons associated with PFM ("Associated Persons") are permitted to buy or sell securities that are also recommends to clients consistent with PFM's policies and procedures.

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

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

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

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

## Review of Accounts and General Reports

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PFM monitors assets as part of an ongoing process while regular account reviews are conducted on at least an annual basis. Investment advisory clients are encouraged to discuss their needs, goals, and objectives with PFM and to keep PFM informed of any changes thereto. PFM contacts ongoing investment advisory clients at least annually to review its previous services and/or recommendations and to discuss the impact resulting from any changes in the client's financial situation and/or investment objectives.

Unless otherwise agreed upon, clients are provided with transaction confirmation notices and regular summary account statements directly from the broker-dealer or custodian for the client accounts. Those clients to whom PFM provides investment advisory services will also receive a report from PFM that may include such relevant account and/or market-related information such as an inventory of account holdings and account performance on a quarterly basis. Clients should compare the account statements they receive from their custodian with those they receive from PFM.

## Client Referrals and Other Compensation

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

In addition, PFM has a relationship with Merion Wealth Partners, LLC ("*Merion*") where *Merion* will provide access to certain services to PFM and/or PFM's clients. These services may include support for insurance services, sub-advisory services, and commission based securities brokerage services for non-investment advisory assets. PFM will receive compensation from *Merion* for referring clients to *Merion* for such services. **Financial Information**

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

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