

**Item 1: Cover Page**

**Financial Innovations LLC  
(Part 2A of Form ADV)**

This brochure provides information about the qualifications and business practices of Financial Innovations LLC. If you have any questions about the contents of this brochure, please contact us at: (972) 931-0063, or by email at: [mail@financialinnov.com](mailto:mail@financialinnov.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.

Financial Innovations is a Registered Investment Advisor. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information that you may use to determine whether to hire or retain them.

Additional information about FILLC is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

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Registration does not imply a certain level of skill or training.

**Version Date: 03/01/2011**

## **Item 2: Material Changes**

### **Annual Update**

The Material Changes section of this brochure will be updated annually or when material changes occur since the previous release of the Firm Brochure. The last annual update to ADV Part II was on January 11, 2011.

### **Material Changes since the Last Update**

The U.S. Securities and Exchange Commission issued a final rule in July 2010 requiring advisers to provide an updated Firm Brochure in narrative “plain English” format that specifies mandatory sections and organization. This brochure has been updated to following these rules.

- Tyler L. Page is now offering financial advice to select Clients.
- Financial Innovations LLC is currently in the process of switching from being registered with the SEC to being registered with the State of Texas.

### **Full Brochure Available**

Whenever you would like to receive a complete copy of our Firm Brochure, please contact us by telephone at: (972) 931-0063 or by email at: [mail@financialinnov.com](mailto:mail@financialinnov.com).

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## Item 4: Advisory Business

### A. Description of the Advisory Firm

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Financial Innovations LLC provides personalized wealth management and investment consulting solutions for select individuals, corporations, trusts, pension and profit sharing plans, estates, charitable organizations and small businesses.

The firm was founded in July 27, 2004. Financial Innovations (hereinafter "FILLC") is currently registered with the Securities and Exchange Commission (SEC). FILLC is currently in the process of switching from being registered with the SEC to being registered with the State of Texas.

### Principal Owners

Michael J. Davidson is the only firm principal and is a 100% stockholder.

### B. Types of Advisory Services

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FILLC provides wealth management solutions to customers (hereinafter "Clients") by offering investment management services and advanced planning services to Clients.

### Investment Management Services

FILLC provides portfolio and investment management services based upon the principals of Modern Portfolio Theory and Efficient Markets utilizing primarily passive investment strategies and long-term holding periods.

FILLC investment management approach is grounded in academic science, with a focus on investing, not forecasting. Differentiated from traditional investment management where the primary objective is to beat the market by stock picking or market timing, FILLC directs Client investments applying the following financial principles:

- ⚙ Markets Work Efficiently
- ⚙ Risk and Return are Related
- ⚙ Avoid Traditional Investment Management
- ⚙ Asset Allocation Determines Risk & Expected Return
- ⚙ Investing Requires Time
- ⚙ Investing Requires Rebalancing

Investment management services are facilitated through the creation and implementation of an Investment Policy Statement (IPS) for each Client. The IPS includes information about the Client including: values, accomplishments, key relationships, feelings about risk, balance sheet information, other advisors and financial goals. The IPS is a key component to the overall plan and helps to communicate and implement the investment strategy.

FILLC analysis methods utilize resources from commercially available software packages, market rating services, general market data and financial publications. FILLC also benefits from the economic expertise and investment knowledge of economists affiliated with Dimensional Fund Advisors (DFA).

### **Advanced Planning Services**

On more than an occasional basis, FILLC furnishes advice to Clients on matters not involving securities, such as financial planning matters, taxation concerns, life insurance, retirement planning, college planning and debt/credit planning. Typically, these areas are covered in the creation of the Client Investment Policy Statement. The IPS may include, but is not limited to: a net worth statement; a cash flow statement; a review of investment accounts, including reviewing asset allocation and providing repositioning recommendations; strategic tax planning; a review of retirement accounts and plans including recommendations; a review of insurance policies and recommendations for changes, if necessary; one or more retirement scenarios; estate planning review and recommendations; and education planning with funding recommendations.

The first Client meeting, called a discovery meeting, is free of charge and is considered an exploratory interview to determine the extent to which financial planning and investment management may be beneficial to the Client. After the IPS is created, FILLC will work closely with the Client and their advisors to implement the necessary next steps.

### **C. Tailored Relationships and Client Imposed Restrictions**

The goals and objectives for each Client are documented in a custom Client profile and stored in our Client relationship management system. Custom Investment Policy Statements are created for each Client that reflects the stated goals, values, feelings about risk and objectives. Clients may impose restrictions on investing in certain securities or types of securities.

### **D. Wrap Fee Programs.**

FILLC does not participate in any wrap fee programs.

### **E. Assets Under Management**

As of 03/11/2011, FILLC manages approximately \$ 56,885,195 in assets on a discretionary basis, and \$ 0 is managed on a non-discretionary basis for 363 accounts.

A discretionary basis includes the Client authorizing FILLC to manage Client accounts within the chosen investment strategy; therefore, FILLC is responsible for determining which trades to make.

## Item 5: Fees and Compensation

### A. Advisory Services Compensation Description

#### Investment Advisory Services Fees

FILLC manages Client accounts on a discretionary basis, with limited authority to make Client trades and deduct advisory fees. Fees are calculated based upon the following tiered annual schedule:

Assets Under Management	Annual Fee
\$0—\$499,999*	1.0 %
\$500,000—\$999,999	0.9 %
\$1,000,000—\$1,499,999	0.8 %
\$1,500,000—\$1,999,999	0.7 %
\$2,000,000—\$2,499,999	0.6 %
\$2,500,000—\$4,999,999	0.5 %
\$5,000,000—and Up	Negotiable

Client fees are calculated on the gross value of Client account(s) under management and are debited quarterly or monthly, at the beginning of each quarter or month. IN ALL CASES, the Client can terminate the agreement at any time, for any reason, and any prepaid fees will be refunded on a pro-rated basis. For refund of prorated fees, FILLC will need to have written authorization from Client that agreement is terminated.

\* FILLC desires new Client accounts to be greater than \$500,000. Client account values less than \$500,000 will be evaluated on a case-by-case basis.

#### Advanced Planning Fees

In addition to asset-based fees, FILLC can charge hourly fees for the development of wealth management plans, written financial plans, or consultations at an hourly rate not to exceed \$250. These fees are negotiable and agreed to in writing by the Client.

### B. Payment of Fees

Investment management fees are withdrawn directly from Client accounts with written Client authorization monthly or quarterly, in advance. The Client must consent in advance to direct debiting of their investment account. Client accounts are valued on the last day of the month or quarter.

If the account is a qualified plan for a business and the business would like to pay fees directly, FILLC will send invoice to business either monthly or quarterly.

Advanced planning fees are paid by the Client after services have been delivered.

### **C. Third Party/Custodian Fees**

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Custodians may charge transaction fees on purchases or sales of stocks, bonds, certain mutual funds and exchange-traded funds. Clients are responsible for the payment of all third party fees. These fees are separate and distinct from fees charged by FILLC.

Please see Item 12 of this brochure regarding broker/custodian.

### **Expense Ratios**

Mutual funds generally charge a management fee for their services as investment managers. The management fee is called an expense ratio. For example, an expense ratio of 0.50 means that the mutual fund company charges 0.5% for their services. These fees are in addition to the fees paid by you to FILLC.

Performance figures quoted by mutual fund companies in various publications are after their fees have been deducted. Financial Innovations recommends that Clients read all investment prospectuses for mutual fund details.

### **D. Prepayment of Fees**

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FILLC collects fees in advance. Should a Client decide to terminate agreement with FILLC, fees will be refunded based on the prorated amount of work completed at the point of termination and the total days during the billing period. FILLC will require a letter in writing from Client to terminate agreement so that fees can be refunded.

In addition, FILLC reserves the right to terminate any Client agreement where a Client has willfully concealed or has refused to provide pertinent information about financial situations when necessary and appropriate.

### **E. Outside Compensation For Sale of Securities to Clients.**

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Neither FILLC nor its supervised persons accepts any compensation for the sale of securities or investment products, including asset-based sales charges or services fees from the sale of mutual funds. Accepting outside compensation for investments or securities provides a conflict of interest.

Clients may have the option to purchase investment products that we recommend through other brokers or agents unaffiliated with FILLC. FILLC will disclose any conflict of interest with a Client in writing.



## Item 6: Performance-Based Fees

FILLC 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.

## Item 7: Types of Clients

### A. Description

FILLC generally provides investment advice and advanced planning to the following types of Clients:

- |                              |                   |
|------------------------------|-------------------|
| ✿ Individuals                | ✿ Not for Profits |
| ✿ High Net worth Individuals | ✿ Corporations    |
| ✿ Trusts                     | ✿ Estates         |
| ✿ Pension Plans              |                   |

### Account Minimums

Typically, the minimum account size is \$ 500,000 of assets under management, which equates to an annual fee of \$ 5,000.

Generally FILLC will require new Client accounts to be greater than \$500,000. Client account values less than \$500,000 will be evaluated on a case-by-case basis.

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

### A. Methods of Analysis

FILLC analysis methods utilize resources from commercially available software packages, market rating services, general market data and financial publications. FILLC also benefits from the economic expertise and investment knowledge of economists affiliated with Dimensional Fund Advisors (DFA).

### B. Investment Strategies

Markets throughout the world have historically rewarded investors for the capital they supply. Companies

compete with each other for investment capital, while investors compete with each other to find the most attractive returns for their capital. This fierce competition helps to drive prices to fair value or towards price equilibrium.

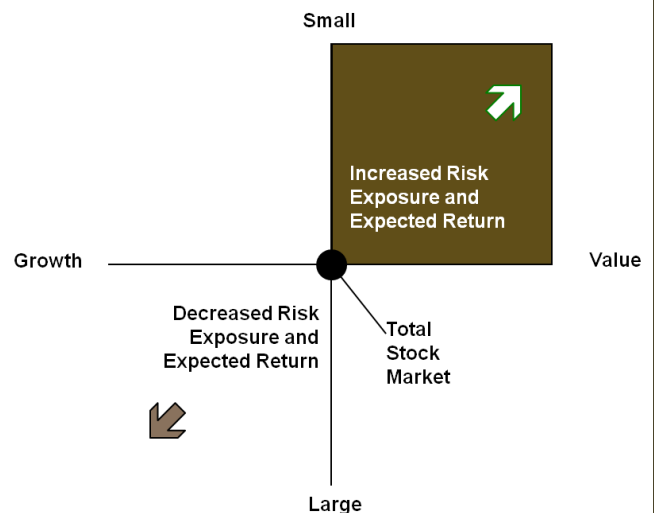
Security prices change every day as they incorporate new information about changes in expectations and opinions of all market participants. Because the current price of an individual security reflects all current information that is currently known, FILLC believes the current price is typically the best approximation of actual value.

Traditional investment management tries to take advantage of current pricing "mistakes" by speculating on future prices. While often a costly exercise for the traditional market investor, this is great news for the long-term investor. It means that prices for public securities are fair and that persistent differences in average returns are explained by differences in average risk. Financial Innovations rejects speculation, forecasting and guessing. Instead, we focus our efforts on understanding where risk comes from and continually monitoring how much to take

In order to have real expected returns, investors must take real risk. ***Risk is the possibility that an investor may lose money.*** In theory, risk-free investments do exist. For US investors, T-bills (1-month or 3-month) are commonly used to benchmark these risk-free returns. Although T-bills are very conservative investments, in practice, they do actually carry some investment risk. ***Investing in anything that has an expected return greater than t-bills assumes a real investment risk.***

When investing in equities (stocks), there are many risks investors should to avoid, but the following are three risk factors that investors should consider:

- ⚙️ **Market Risk** – Equity/stock markets are riskier than credit markets (bonds); therefore, stocks have greater expected returns than bonds.
- ⚙️ **Size Risk** – Smaller company stocks are riskier than larger companies; therefore, small company stocks have higher expected returns than large company stocks.
- ⚙️ **Price Risk** – Growth stocks have a higher price per share compared to value stocks relative to book value or earnings. Investors are generally willing to pay more per share for companies that are more established or “healthy”. Investing in lower priced stocks generally provides greater upside compensation as these companies’ prices reflect higher underlying risk.



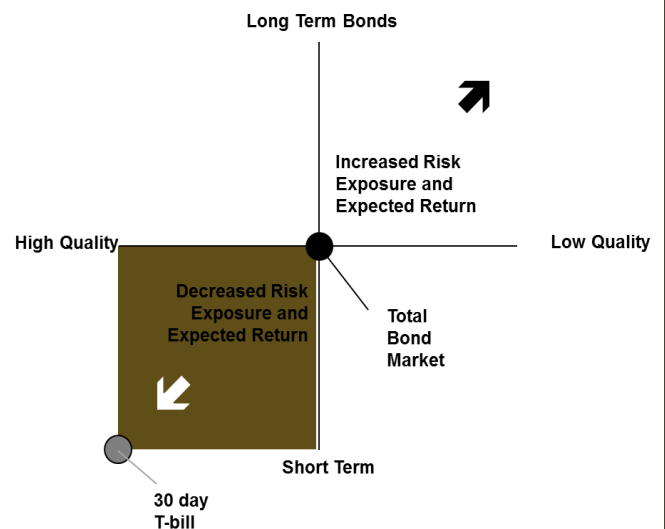
Financial Innovations uses asset-class funds and index funds to build global equity portfolios to capture these risks and expected returns.

As with equities, the risk and expected return of fixed income securities are also related. Understanding this relationship enables investors to plan the total risk/return profile of their Portfolio. The two primary risk factors that we consider when looking at fixed income are:

- ⚙ **Maturity** – Longer-term bonds are riskier than shorter-term bonds. They are more sensitive to changes in interest rates.
- ⚙ **Default** – Bonds with lower credit quality are riskier than bonds with higher credit quality.

Financial Innovations believes that increasing bond portfolio durations generally provides smaller incremental returns with higher incremental risk.

Financial Innovations uses asset-class funds and index funds to build global fixed income portfolios with focus on short-term (less than five years), high-quality (investment grade) instruments.



### C. Risk of Specific Securities

Financial Innovations builds globally diversified equity and fixed income portfolios that hold over 12,000 positions invested in over 40 countries. When investing in globally diverse portfolios, Clients will be subject to the following risks.

- |                      |                     |
|----------------------|---------------------|
| ⚙ Interest-rate Risk | ⚙ Reinvestment Risk |
| ⚙ Market Risk        | ⚙ Liquidity Risk    |
| ⚙ Inflation Risk     | ⚙ Financial Risk    |
| ⚙ Currency Risk      |                     |

## Item 9: Disciplinary Information

### Legal and Disciplinary

The firm and its employees have not been involved in legal or disciplinary events related to past or present investment Clients.

## Item 10: Other Financial Industry Activities and Affiliations

### **A. Registration as a Broker/Dealer or Broker/Dealer Representative.**

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Neither FILLC nor its representatives are registered as a broker/dealer or as representatives of a broker/dealer.

### **B. Registration as a Futures Commission Merchant, Commodity Pool Operator/Trading Advisor.**

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Neither FILLC nor its representatives are registered as a Futures Commission Merchant, Commodity Pool Operator, or a commodity trading advisor.

### **C. Relationships Material to this Advisory Business and Possible Conflicts of Interests**

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Michael Davidson is a licensed insurance agent and receives typical insurance commission compensation from the distribution of fixed insurance products like term insurance. This presents a conflict of interest. This conflict is mitigated through communicating said conflict directly to the Client and providing alternatives to implement recommendations through other agents.

FILLC will from time to time compensate, either directly or indirectly, any person (defined as a natural person or a company), including CPA firms, for Client referrals. FILLC is aware of the special considerations promulgated pursuant to Rule 206(4)-3 under the Investment Advisers Act of 1940. As such, appropriate disclosure shall be made, all written instruments will be maintained by FILLC and all applicable Federal and/or State laws will be observed.

### **D. Selection of Other Advisors**

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FILLC does not utilize nor select other advisors or third party managers.

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

### **A. Code of Ethics**

Financial Innovations has a Code of Ethics adopted pursuant to SEC rule 204A-1 that is available for review by Clients and prospective Clients upon request. This written document mandates that we put the interests of our Clients first.

### **B. Recommendations Involving Material Financial Interests**

FILLC does not recommend to Clients, or buy or sell for Client accounts, securities in which FILLC or a related person has a material financial interest.

### **C. Investing in Same Securities as Clients**

Financial Innovations representatives invest in the same securities they recommend to Clients. This is not a conflict of interest as these securities are public mutual funds, index funds and exchange traded funds.

### **D. Trading Securities At/Around the Same Time as Clients' Securities**

The Chief Compliance Officer of FILLC is Michael Davidson. He reviews all employee trades each quarter. His trades are reviewed by the operations manager. The personal trading reviews ensure that the personal trading of employees does not affect the markets, and that Clients of the firm receive preferential treatment. Most trades are mutual fund or small sized exchange-traded funds which typically do not affect markets or securities prices.

## **Item 12: Brokerage Practices**

### **A. Factors Considered in Selecting Custodians and/or Broker/Dealers.**

Brokerage fees including account fees, trading costs and fund availability are primary factors used to consider a custodian.

#### **1. Research and Other Soft Dollar Benefits.**

FILLC receives access to research, trading software and services from custodians from fees the Client pays in connection with Client securities transactions. The services that FILLC receives from custodians benefit all FILLC Clients.

FILLC does not have any affiliation with product sales firms. FILLC recommends discount brokerage firms and trust companies (qualified custodians), such as TD Ameritrade. FILLC does not receive fees or commissions from any of these arrangements.

## **2. Brokerage for Client Referrals**

FILLC receives no referrals from a broker-dealer or third party in exchange for using that broker-dealer or third party.

## **3. Directed Brokerage**

a. Currently FILLC uses TD AMERITRADE Institutional, a division of TD Ameritrade, Inc. Member FINRA/SIPC for custody and brokerage. FILLC reviews the execution of trades at each custodian each quarter. The review is documented in the FILLC Compliance Manual. Trading fees charged by the custodians are also reviewed on a quarterly basis. FILLC does not receive any portion of the trading fees.

By directing brokerage to TD AMERITRADE, Clients may pay higher fees or transaction costs than those obtainable by other broker-dealers or custodians. FILLC believes that our Clients are paying a discounted and reasonable rate. You may pay higher or lower fees if you select another broker-dealer. Generally, we will not negotiate lower rates below the rates established by the executing broker-dealer for this type of directed brokerage account, unless we believe that such rates is unfair or unreasonable for the size and type of transaction. We believe that TD AMERITRADE charges competitive commission on transactions they handle for us that are reasonable and customary.

b. Currently FILLC does not allow Clients to direct brokerage.

## **B. Factors Considered in Selecting Custodians and/or Broker/Dealers.**

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Typically, trades made at TD Ameritrade are mutual funds or exchange-traded funds where trade aggregation does not garner any Client benefit.

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

Specific custodian recommendations are made to Clients based on their need for such services

# **Item 13: Review of Accounts**

## **A. Periodic Review of Client Accounts/Financial Plans**

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Client accounts are reviewed at least quarterly by Michael J. Davidson. Each business day, a tolerance test is performed to determine if Client accounts are out of balance from target portfolio. The Investment Policy Statement is reviewed with the Client during Client meetings.

## **B. Review Triggers**

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If a Client portfolio moves outside of asset-class tolerances, FILLC will receive a notice that portfolio is outside of tolerance. This notification will trigger a portfolio review. This tolerance test is performed each business day.

## **C. Regular Reports**

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Each Client will receive monthly statements from custodian. FILLC also maintains Client portal where Clients can run reports on daily basis. FILLC posts additional reports to Client portals on monthly and quarterly basis.

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

## **A. Economic Benefits Provided by Third Parties**

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FILLC does not receive any economic benefit directly or indirectly from any third party for advice rendered to Clients.

## **B. Referrals Out**

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FILLC will from time to time compensate, either directly or indirectly, any person (defined as a natural person or a company), including CPA firms, for Client referrals. FILLC is aware of the special considerations promulgated pursuant to Rule 206(4)-3 under the Investment Advisers Act of 1940. As such, appropriate disclosure shall be made, all written instruments will be maintained by FILLC and all applicable Federal and/or State laws will be observed.

# **Item 15: Custody**

FILLC does not have custody of any accounts. We use TD AMERITRAE as the custodian and/or broker-dealer for all your accounts. You should receive at least quarterly statements from the broker-dealer or custodian that holds and maintains your investment assets. We urge you to carefully review such statements and compare this official custodial record to the account statements that we may provide to you. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities. If you notice any discrepancies, please contact Michael Davidson.

We do not debit the Client fees directly from your advisory account. Only the custodian has the authority to directly charge and debit the advisory to your account, which is then forwarded to us. The Custodian will provide you immediate transaction confirmations and monthly statements, either by mail or electronically per

your request. Monthly statements list the total value of the account at the start and end of the month and itemize all transactions and security positions. For taxable accounts, the custodian will provide you consolidated year-end summary statements including IRS forms 1099 and other tax-related forms, as applicable. We are not allowed to make alterations or amendments to the custodian's statement. This preserves the integrity of the custodian's statement and provides you with an independent appraisal of the account."

### **Item 16: Investment Discretion**

Discretionary trading authority facilitates placing trades in your accounts on your behalf so that we may promptly implement the investment policy that you have approved in writing. FILLC accepts discretionary authority to manage securities accounts on behalf of Clients. FILLC has the authority to determine, without obtaining specific Client consent, the securities to be bought or sold, and the amount of the securities to be bought or sold. However, FILLC consults with the Client prior to each trade to obtain concurrence if a blanket trading authorization has not been given. Client provides this authority by approving FILLC for limited power of attorney for trading on related sections of custodial new account forms.

### **Item 17: Voting Client Securities**

#### **A. Proxy Votes**

FILLC does not vote proxies on securities. Clients are expected to vote their own proxies.

When assistance on voting proxies is requested, FILLC will provide recommendations to the Client. If a conflict of interest exists, it will be disclosed to the Client.

#### **B. Proxy Authority**

FILLC does not have authority to vote proxies. Clients will receive their proxies or solicitations directly from their custodian or transfer agent.

### **Item 18: Financial Information**

#### **A. Financial Condition**

A balance sheet is not required to be provided because FILLC does not serve as a custodian for Client funds or securities, and does not require prepayment of fees of more than \$600 per Client, and six months or more in advance.



## **B. Discretionary Authority or Custody**

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FILLC does not have any financial impairment that will preclude the firm from meeting contractual commitments to Clients.

## **C. Bankruptcy Petitions in Previous Ten Years**

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FILLC has not been the subject of any bankruptcy petition.

# **Item 19: Requirements for State-Registered Advisors**

## **A. Management Persons, Education and Business Standards**

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FILLC requires that advisors in its employ have a bachelor's degree and further coursework demonstrating knowledge of financial planning and tax planning. Examples of acceptable coursework include: an MBA, a CFP®, a CFA, a ChFC, JD, CTFA, EA or CPA. Additionally, advisors must have work experience that demonstrates their aptitude for financial planning and investment management.

Michael J. Davidson, President and Chief Compliance Officer – CRD # 4547024

Date of Birth: 05/28/1974

Educational Background: Texas Tech – Bachelors Engineering 1996, Texas Tech – Masters Engineering 1997

Following graduation, Mr. Davidson worked for Arthur Anderson (1997-2002) as a consultant, a securities registered representative with Jefferson Pilot Securities (2002-2004) and Centaurus Financial (2004 to 2005).

Disciplinary Information: None

Arbitration Claims: None

Self-Regulatory Organization or Administrative Proceeding: None

Bankruptcy Petition: None

Tyler L. Page, Operations Manager and Advisor – CRD # 5814850

Date of Birth: 11/20/1984

Educational Background: Texas Tech – Bachelors Finance (2007), Texas Tech – Master Financial Planning (2010)

Following graduation from Texas Tech, Mr. Page worked as a business analyst (2008 – 2010) with Perot Systems.

Disciplinary Information: None.

Additional Compensation: None

Arbitration Claims: None

Self-Regulatory Organization or Administrative Proceeding: None

Bankruptcy Petition: None