

DISCLOSURE BROCHURE

THE INVESTMENT ADVISERS ACT OF 1940 RULE 204-3
Part 2A of Form ADV: Firm Brochure



FINANCIAL SERVICES ADVISORY INCORPORATED

FSA... There Is A Difference



SEC File #: 801-18801
Firm CRD/IARD #: 104513

Financial Services Advisory, Inc.
REGISTERED INVESTMENT ADVISOR

Cover Page **ITEM 1**

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This Disclosure Brochure provides information about the qualifications and business practices of Financial Services Advisory, Inc., which should be considered before becoming a client. You are welcome to contact us should you have any questions about the contents of this brochure - our contact information is listed to the right. Additional information about Financial Services Advisory is also available on the SEC's website at www.adviserinfo.sec.gov.

The information contained in this Disclosure Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any State Securities Administrator. Furthermore, the term "registered investment advisor" is not intended to imply that Financial Services Advisory, Inc. has attained a certain level of skill or training.

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BROCHURE
DATED

1
JANUARY
2012



MATERIAL CHANGES

ITEM 2

There have been no material changes made to this document since the last revision date indicated on the cover of this Disclosure Brochure.



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ADVISORY BUSINESS

ITEM 4

Who We Are

Financial Services Advisory, Inc. (hereinafter referred to as "FSA", "the Advisor", "we", "us" and "our") is a fee-only registered investment advisor¹ incorporated in January of 1982 as a Maryland corporation. As a fiduciary (we put your interests first) we provide asset management for individuals, business owners, foundations, and trusts (including brokerage, IRAs, and other retirement plans).

Owners

FSA is controlled by the following person:

Name	Title	CRD#
David R. Petersen	President & Chief Compliance Officer	716333

Assets Under Management

As of December 31, 2011, our assets under management totaled:

Client Discretionary Managed Accounts..... \$554,000,000

We do not offer non-discretionary investment management services.

Our Mission

Our mission is to be an indispensable financial partner with every client we serve.

What We Do

We assist you in achieving financial security in an insecure world. We do this by utilizing an active system of investment management. The goal of our management system is to increase your portfolio value during rising markets and use the **FSA Safety Net**[®] (see Item 8, "Managing Risk") to protect your assets when markets decline.

Getting Started

Managing your money is more than just buying and selling investments - it's about understanding your goals and motivations and how your investments will support them. So, before we get started actively managing your portfolio we need to understand your financial picture.

To accomplish this, we have a four-step process for bringing new clients on-board that makes the transition smooth and stress free.

¹ The term "registered investment advisor" is not intended to imply that Financial Services Advisory, Inc. has attained a certain level of skill or training. It is used strictly to reference the fact that we are "registered" as a licensed "investment advisor" with the United States Securities & Exchange Commission - and "Notice Filed" with such other State Regulatory Agencies that may have limited regulatory jurisdiction over our business practices.



Step 1 - "Get to Know You Meeting"

Our first session gives us the opportunity to get to know each other. We ask you to complete our Client Profile² so we can more fully understand your current financial situation, including your prior investment experience and tolerance for risk. We listen to your concerns, answer any questions you may have and begin to formulate a strategy to address your goals and needs.

Step 2 - "The Transition"

During this step we will need to review in more detail your current portfolio holdings. In some cases, it makes sense to sell the current portfolio and transfer cash, while in other cases it makes sense to transfer all existing securities. We will help determine what (if anything) needs to be sold before transfer. Charles Schwab & Co, our recommended custodian, can accept most securities from other firms.

Step 3 - "Moving Forward"

After all accounts are opened and assets are in place, we begin management utilizing the FSA Safety Net[®] system. Throughout the course of the year, expect to receive various communications from us, in addition to the monthly account statements from Charles Schwab & Co.:

- ❖ Quarterly portfolio appraisals and periodic tax reports
- ❖ Quarterly Financial Planning Newsletter
- ❖ Periodic Market Updates
- ❖ Periodic reviews of your accounts and financial planning needs
- ❖ Webinar invitations to hear and see what we're thinking and doing

Step 4 - "Peace of Mind"

The goal of this final step is to hear you confidently say, *"I'm glad I don't have to worry about it anymore."* Like our long-term clients, we anticipate you will say the same thing because you will have the peace of mind knowing your accounts are focused on making money during good cycles and preserving gains when price trends reverse.

During each review meeting, we take the opportunity to review your investment portfolio in light of your current needs as well as any additional financial items you may wish to discuss.

FEES & COMPENSATION

ITEM 5

Asset Management

Asset management is provided on an asset-based fee arrangement billed semi-annually in advance (June 30th and December 31st). Management fees are calculated by taking the aggregate fair market value of your portfolio multiplied by one-half of the corresponding

² The Client Profile we use is an important tool in gathering information about your investment experience, risk tolerance, income/tax bracket, liquidity, time horizons, etc. If you elect not to answer the questionnaire or choose to respond with limited input, it is possible that we could operate in a handicapped capacity contrary to your investment needs. Therefore, if you desire the most effective and accurate recommendations regarding your managed account(s), you should make every effort to provide us with your detailed personal needs and objectives, along with financial and tax information.



annual fee rate for each portion of your portfolio assets that fall within each tier (See “Billing” below under “Protocols for Asset Management” for more information.).

We retain discretion, within each tier, to reduce the management fee lower on a client-to-client basis depending on the size and complexity of the portfolio managed:

Account Value	Annual Fee Rate Not to Exceed
First \$ 500,000	1.25%
Next \$1,000,000	1.00%
Next \$3,500,000	0.75%
Over \$5,000,000	0.65%

We have a \$2,500 minimum annual fee requirement, which for portfolio values that fall below \$200,000 will exceed our highest published 1.25% annual fee rate. This minimum annual fee may be reduced.

The asset management fee will be fully disclosed to you in an Asset Management Agreement prior to conducting any investment management services.

Protocols for Asset Management Services

The following protocols establish how we will handle your managed account(s) and what you should expect when it comes to: (i) managing your account; (ii) your fees for investment services; (iii) deposits and withdrawals in/from your account(s); and, (iv) other fees charged to your account(s).

Discretion

We will establish discretionary trading authority on all management accounts to execute securities transactions at anytime according to the agreed upon investment strategy(ies) and without your prior consent or advice. At anytime however, you may impose restrictions, in writing, on our discretionary authority (i.e., limit the types/amounts of particular securities purchased for your account, exclude the ability to purchase securities with an inverse relationship to the market, etc.)

Billing

Your account will be billed semi-annually in advance based on the aggregate fair market value of the assets in your account on June 30th and December 31st. Our management fee will be a blended percentage based on your total assets that fall within each tier of our fee schedule. For example:

Account Value: \$2,000,000	Annual Fee % (Per Tier)	Annual Fee (Billed per Tier)
First \$ 500,000	1.25%	\$ 6,250
Next \$1,000,000	1.00%	\$10,000
Next \$ 500,000	0.75%	\$ 3,750
Total Annual Fee:		\$20,000

For new accounts, fees are pro-rated from inception through the end of the semi-annual billing period. Advisory fees will be deducted first from any money market funds or cash



balances. If such assets are insufficient to satisfy payment of such fees, a portion of the account assets will be liquidated to cover the fees.

Fee Exclusions

The above fees for all our management services are exclusive of any charges imposed by the custodial firm including, but not limited to: (i) any Exchange/SEC fees; (ii) certain transfer taxes; (iii) service or account charges, including, postage/handling fees, electronic fund and wire transfer fees, auction fees, debit balances, margin interest, certain odd-lot differentials and mutual fund short-term redemption fees; and (iv) brokerage and execution costs associated with securities held in your managed account. There can also be other fees charged to your account that are unaffiliated with our management services.

In addition, all fees paid to us for portfolio management services are separate from any fees and expenses charged on mutual fund shares by the investment company or by the investment advisor managing the mutual fund portfolios. These expenses, which we do not share in, generally include management fees and various fund expenses, such as 12b-1 fees. Redemption fees, account fees, purchase fees, contingent deferred sales charges, and other sales load charges may occur but are the exception within managed accounts at institutional custodians. A complete explanation of these expenses charged by the mutual funds is contained in each mutual fund's prospectus. You are encouraged to carefully read the fund prospectus.

Termination of Asset Management Services

Either party, by written notification to the other party, may terminate the Asset Management Agreement at any time provided such written notification is received before the close of business on any business day of the week. Such notification should include the date the termination will go into effect, if not immediate, along with any final instructions on the account.

Once termination of investment advisory services has been implemented, neither party has any obligation to the other - we no longer earn management fees or give investment advice and you become responsible for making all future investment decisions. In the event termination does not fall on December 31st or June 30th, we shall refund **any full-month** unearned fee.

Financial Consulting

Upon request, we are happy to discuss and provide limited financial planning to Asset Management clients on investment and non-investment related matters, such as retirement planning, education planning, estate planning, etc. Foundations and retirement plans have different unique needs that typically require cash flow analysis to help determine the management of the portfolio. As a trusted advisor, our role is to assist you in making informed financial decisions to help you reach your goals. Any implementation of our advice, however, will be up to you.

We do not verify any information you share with us and you are under no obligation to implement any of our recommendations. You are encouraged to keep us apprised of any changes to your financial situation that could impact how we manage your investment portfolio. You must contact us for future financial advice since we do not provide ongoing planning advice once the planning/advice discussion has occurred.

We generally do not charge an additional fee for these unsolicited services, unless they exceed the focus of our limited scope of planning. Should additional planning needs be evident, we



will have you enter a separate agreement outlining the terms, conditions, and scope of services provided – financial consulting services can be terminated at any time. Financial consulting fees are negotiable, but generally range from \$150 to \$450 per hour depending upon the level and scope of service required and the professional(s) rendering the service(s). However, we do not provide comprehensive financial planning services or written financial plans.

PERFORMANCE-BASED FEES & SIDE-BY-SIDE MANAGEMENT

ITEM 6

We currently do not offer any performance-based asset management services.

TYPES OF CLIENTS

ITEM 7

The types of clients we serve are described in Item 4, “Who We Are.” Our minimum portfolio fee for management is disclosed in Item 5 under “Asset Management.”

METHODS OF ANALYSIS, INVESTMENT STRATEGIES & RISK OF LOSS

ITEM 8

Methods of Analysis & Investment Strategies

Given the inherent risk and volatility from investing in individual securities, FSA uses pooled investment vehicles, such as mutual funds and exchanged-traded securities (i.e., ETFs and ETNs). We will use both actively managed funds as well as index funds.

Making money is a result of combining (i) appreciation and (ii) dividends – known as total return. Money made from appreciation has greater risk (volatility) than money earned from dividends in income-oriented securities. All FSA strategies seek total return – though risk increases for portfolios that have a greater allocation to securities seeking appreciation. Taking into consideration your need for money (portfolio withdrawals) and your tolerance for risk, we can help you select among the following investment strategies (ordered from conservative to aggressive):

- ❖ **Income** – This strategy invests solely in income-oriented securities (i.e. corporations, governments, and municipalities) within the U.S. and international markets while emphasizing capital preservation and minimal market risk.
- ❖ **Income and Growth** – This strategy invests primarily in income-oriented securities while complementing the portfolios with some U.S. or international securities offering the potential for capital appreciation. You should be willing to accept modest stock market risk and volatility.
- ❖ **Conservative Growth** – This strategy seeks both appreciation and income by investing among stock, bond, international and other securities. You should be willing to accept moderate stock market risk and volatility.
- ❖ **Core Equity** – This strategy diversifies among appreciation-oriented securities within the U.S. and international markets. You should be willing to accept market risk and volatility normally associated with an all-stock portfolio (i.e. S&P 500 index).
- ❖ **Tactical Growth** – This strategy emphasizes growth through the use of any type of security. Portfolios will, at times, be concentrated in volatile appreciation or income-oriented securities within U.S. and international markets. You should be willing to accept increased volatility and trading, with less diversification.



The factors considered in the search for securities used for management include but are not limited to the following: performance, risk, consistency of objectives, manager's tenure, fund size and fund distributions. We may also utilize information obtained from rating and tracking organizations, services providing money flow statistics, business publications, fund prospectuses and other sources, and may consider other criteria including, but not limited to, the administrative, recordkeeping, communication, reporting and other services provided.

Fundamental Analysis

Fundamental analysis considers: growth rates, economic conditions, earnings, cash flow, industry outlook, politics (as it relates to investments), historical data, price-earnings ratios, dividends, general level of interest rates, and mutual fund company management.

Technical Analysis

Technical analysis utilizes current and historical pricing information to help us identify trends in the equity and fixed income markets, and in the underlying assets themselves. This may involve the use of various technical indicators, such as moving averages and trend-lines, among others.

We will use a fundamental analysis to gather information and a technical approach to guide us with buy/sell decisions.

Managing Risk

With the ever-evolving dynamics of our U.S. financial markets, the economy, and the influence of global emerging markets, we feel that an active approach to managing investments is necessary to achieve the long-term returns you desire. In an ideal world we would all want to "buy-and-hold" a security forever. We feel this is an unrealistic expectation. Conventional "buy-and-hold" strategies are not designed to reduce your exposure in volatile or declining financial markets. For this reason, we believe successful investing and risk management is defined by two factors:

1. **FSA Safety Net®** - Preserving gains when price-trends reverse
2. **Follow the Money** - Being properly positioned in securities with rising price trends

FSA Safety Net®

The **FSA Safety Net®** is our exit strategy. Knowing that a 100% gain is needed to offset a 50% loss, our mantra is "Winning by not losing." This is more than just a catchy phrase; it is the foundation of our investment philosophy. While many advisors and investors constantly seek opportunities for higher returns, we believe protecting what you've made is the most important strategy we can take. We do this by utilizing the **FSA Safety Net®** to help reduce losses during times of extreme volatility and sustained declining trends.

The **FSA Safety Net®** is a stop loss point applied to each security in your account. Our goal is to prevent smaller losses from turning into catastrophic losses. It is also necessary to understand that since we primarily use mutual funds (which price daily at the market close), the **FSA Safety Net®** will not work during sharp (i.e., one day) market drops; or in the event, mutual fund companies, custodian companies, or the security exchanges themselves, at their discretion, suspend, disallow, or fail to conduct trades, redemptions or liquidations.



Follow the Money

We do not believe in holding the same asset classes through all market cycles. All asset classes go through cycles of extended periods of being in and out of favor. This is a function of supply and demand. These cycles create a price-trend which is up, down, or sideways. Asset classes that are in favor (dominated by buyers) create a rising price-trend or "Follow the Money."

Our investment process seeks to own those assets with a rising price-trend that works with our FSA Safety Net®. When investors sell and move money "out", the FSA Safety Net® is in place (to sell) when price trends reverse - the FSA exit strategy.

Regardless of the securities analysis we use to guide us in the management of your investment portfolio or the risk protections we employ with our investment strategies, the most important thing for you to understand is that **investing in securities involves risk of loss that you should be willing and prepared to bear**; and furthermore, **past market performance is no indication of future results**.

Past performance may not be indicative of future results. All investing involves risk.

Therefore, it should not be assumed that future performance of any specific investment or investment strategy (including the investments or investment strategies recommended or undertaken by Financial Services Advisory, Inc.), or any non-investment related content or advice, will be profitable, successful or equal any corresponding indicated historical performance level(s). Please remember that it remains your responsibility to advise Financial Services Advisory, Inc., in writing, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations or services, or if you would like to impose, add, or modify any reasonable restrictions to our investment advisory services.

DISCIPLINARY INFORMATION

ITEM 9

We have no legal or disciplinary events to report.

OTHER FINANCIAL INDUSTRY ACTIVITIES & AFFILIATIONS

ITEM 10

We are a fee-only registered investment advisor; none of our supervised persons are licensed by or are related to, another financial industry participant and therefore no disclosure is necessary for this item.

CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS & PERSONAL TRADING

ITEM 11

Code of Ethics

As a fiduciary, FSA has a duty to render unbiased investment advice, and at all times act in your best interest. To maintain this ethical responsibility, we have adopted a Code of Ethics that establishes the fundamental principles of conduct and professionalism expected by all



personnel in performing their duties. Our Code of Ethics is designed to deter inappropriate behavior and heighten awareness as to what is right, fair, just and good by promoting:

- ❖ Honest and ethical conduct.
- ❖ Full, fair and accurate disclosure.
- ❖ Compliance with applicable rules and regulations.
- ❖ Reporting of any violation of the Code.
- ❖ Accountability.

To help you understand our ethical culture and standards, how we control sensitive information and what steps have been taken to prevent personnel from abusing their inside position, a copy of our Code of Ethics is available for review upon request.

Client Transactions

We have a fiduciary duty to ensure that your welfare is placed before our own. The following disclosures are internal guidelines we have adopted to assist us in protecting you. Since we primarily use mutual funds, these trading policies are directed to transactions in exchange traded securities (i.e., ETFs and ETNs),

Participation or Interest

It is against our policies for any owner, officer, director, or employees to invest with you or with a group of clients, or to advise you or a group of clients to invest in a private business interest or other non-marketable investment unless prior approval has been granted by our Chief Compliance Officer, Mr. David R. Petersen, and such investment is not in violation of any SEC and/or State rules and regulations.

Class Action Policy

FSA does not elect to participate in class action lawsuits on your behalf.

Personal Trading

The Advisor or employees of the Advisor are permitted to personally invest their own monies in securities, which may also be, from time to time, owned in your account. Most of the time, such investment purchases are independent of, and not connected in any way to, the investment decisions made on your behalf. However, there may be instances where investment purchases for you may also be made in an employee's account. In these situations we have implemented the following guidelines in order to ensure our fiduciary integrity:

1. No access person of FSA (i.e., any officer or an employee who has prior access to information regarding clients' purchase or sale of securities), shall buy or sell securities for their personal portfolio(s) where their decision is substantially derived, in whole or in part, by reason of his or her employment unless the information is also available to the investing public upon reasonable inquiry. No employee of ours shall prefer his or her own interest to that of yours or any other advisory client.
2. We maintain a list of all securities holdings for all our access employees. An appointed officer reviews these holdings on a regular basis.
3. We require that all employees act in accordance with all applicable Federal and State regulations governing registered investment advisory practices.
4. Any individual not in observance of the above may be subject to termination.



Personal trading activities are monitored by David R. Petersen, our Chief Compliance Officer, or his designee, to ensure that such activities do not impact your security or create conflicts of interest.

BROKERAGE PRACTICES

ITEM 12

Custodial Services

FSA has custodial arrangements with Charles Schwab & Company, Inc. ("Schwab"), a licensed broker-dealer (member FINRA/SIPC), through its Schwab Advisor Services to financial advisors. Schwab offers us services which include custody of securities, trade execution, clearance and settlement of transactions.

We are not a subsidiary of, or an affiliated entity of Schwab. We have sole responsibility for investment advice rendered, and our advisory services are provided separately and independently from Schwab.

Our recommendation for you to custody your assets with Schwab has no direct correlation to the services we receive from Schwab and the investment advice we offer you, although we do receive economic benefits through our relationship with Schwab that are typically not available to Schwab retail clients.

These benefits include the following products and services (provided without cost or at a discount): receipt of duplicate client statements and confirmations; research related products and tools; consulting services; access to a dedicated trading desk; access to batch trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to accounts); the ability to have advisory fees deducted directly from accounts; access to an electronic communications network for order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; discounts on compliance, marketing, research, technology, and practice management products or services provided to us by third party vendors; and discounted and/or complimentary attendance at conferences, meetings, and other educational events, as well as financial contributions to client entertainment and/or educational seminars.

Schwab may also pay for business consulting and professional services received by our related persons. Some of the products and services made available by Schwab may benefit us and not you or your account. These products or services may assist us in managing and administering your accounts. Other services made available by Schwab are intended to help us manage and further develop our business enterprise. The benefits received by us or our personnel do not depend on the amount of brokerage transactions directed to Schwab.

Direction of Transactions and Commission Rates (Best Execution)

We have a fiduciary duty to put your interests before our own. Schwab's advisory support services create an economic benefit to us and a potential conflict of interest to you; in that, our recommendation to custody your account(s) with Schwab may have been influenced by these arrangements/services. This is not the case; we have selected Schwab as the custodian of choice based on:

1. Schwab's competitive transaction charges, trading platform, and on-line services for account administration and operational support.



2. Schwab's general reputation, trading capabilities, investment inventory, their financial strength, and our personal experience working with Schwab staff.

Since we do not recommend, suggest, or make available a selection of custodians other than Schwab, and we have not verified whether their transaction fees are competitive with another custodian, **best execution may not always be achieved**. Therefore, **you do not have to accept our recommendation to use Schwab as your custodian**. However if you elect to use another custodian, we may not be able to provide you complete institutional services.

Aggregating Trade Orders

Our objective when executing orders is to act fairly, impartially, and to take all reasonable steps to obtain the best possible results (known as "best execution") for you. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution. Also, when we batch (aggregate) orders for a block trade, policies are in place so that no client is systematically advantaged or disadvantaged by batching the orders or when allocating a trade among the batched accounts.

In consideration of these objectives, we will take into account the unique execution factors of the buy/sell order before batching accounts for a block trade. A few of those factors are:

- ❖ **Security Trading Volume** - Batching orders in a block trade can secure price parity and continuity for our clients during heavy trading activity.
- ❖ **Number of Clients** - When fewer client accounts are involved, the batched order may not yield better pricing or order execution; it may be more advantageous to perform an individual market order for each client. In addition, preparing individual market orders for the small number of accounts involved may be quicker to complete than preparing a batch order.
- ❖ **Financial Instruments** - The type of security involved as well as the complexity of the order can affect our ability to achieve best execution.

REVIEW OF ACCOUNTS

ITEM 13

Each client account is reviewed on an ongoing basis to ensure that your needs and objectives are being met. All accounts are reviewed in the context of your stated investment objectives and guidelines. Cash needs will be adjusted as necessary. You will receive monthly statements from Charles Schwab & Company, Inc. where your account(s) are custodied. You are encouraged to review each statement which summarizes the specific investments held, the value of your portfolio and account transactions.

You are also (in person or via telephone) encouraged to review with us planning issues (to extent applicable), investment strategies and account performance on an annual basis. Material changes in your personal circumstances, the general economy, or tax law changes can trigger more frequent reviews. However, it is your responsibility to communicate these changes to us so that the appropriate adjustments can be made.



CLIENT REFERRALS & OTHER COMPENSATION

ITEM 14

Referral Compensation

We may directly compensate persons/firms for client referrals, provided that those persons are qualified and have entered a solicitation agreement with us. Under such arrangements, if you were referred to us by a solicitor, the solicitor will provide complete information on our relationship and the compensation that solicitor will receive should you choose to open an account. In no case will the fee that you pay be higher than it would be if you had dealt directly with us. In addition, we will adhere to each State's rules and regulations where the Solicitor resides prior to entering into any solicitation agreement with that person/firm.

Other Compensation (Indirect Benefit)

FSA receives an indirect economic benefit from Schwab (See "Custodial Services" above under Item 12, "Brokerage Practices" for more detailed information on these services and products could be.).

CUSTODY

ITEM 15

Management Fee Deduction

We do not take possession of or maintain custody of your funds or securities, but will simply monitor the holdings within your portfolio and trade your account based on your stated investment objectives and guidelines. Physical possession and custody of your funds and/or securities are maintained with Charles Schwab & Company, Inc. as indicated above in Item 12, "Brokerage Practices."

We are however defined as having custody since you have authorized us to deduct our advisory fees directly from your account. Therefore to comply with the United States Securities and Exchange Commission's Custody Rule (1940 Act Rule 206(4)-2) requirements, and to protect you as well as to protect our advisory practice, we have implemented the following regulatory safeguards:

- ❖ Your funds and securities will be maintained with a qualified custodian (Schwab) in a separate account in your name.
- ❖ Authorization to withdraw our management fees directly from your account will be approved by you prior to engaging in any portfolio management services.

In addition, Schwab is required by law to send you, at least quarterly, brokerage statements summarizing the specific investments currently held in your account, the value of your portfolio, and account transactions. **You are encouraged to compare the financial data contained in our report to the account statement from Schwab to verify the accuracy of our reporting.**

Trustee Accounts

Our President, David R. Petersen, serves as a trustee for three client accounts. These are the only accounts where we act as trustee and there are no future plans to offer additional trustee services.



In this situation where an employee of ours acts as trustee for a client's trust and also an investment advisor representative to the account, our advisory agreement is accompanied by a trust instrument. When this occurs, by virtue of his/her position the trustee has the legal ownership of the client assets and the authority to dispose of funds and securities in those accounts. This creates a custody situation which requires us to undergo an annual surprise inspection (irregular from year to year) by an independent public accountant of the funds or securities in those accounts for which we have custody.

To comply with 1940 Act Custody Rule 206(4)-2 we will:

- ❖ Request that Charles Schwab & Company, Inc. send account statements to the trust beneficiaries and/or a designated independent representative.
- ❖ Undergo an annual surprise inspection by a Certified Public Accountant.

INVESTMENT DISCRETION

ITEM 16

Securities & Amount Bought or Sold

We execute an Asset Management Agreement with you, which sets forth the authority to buy and sell securities in whatever amounts are determined to be appropriate for your account at our discretion. You may, at anytime, impose restrictions, **in writing**, on our discretionary authority (i.e., limit the types/amounts of particular securities purchased for your account, exclude the ability to purchase securities with an inverse relationship to the market, limit our use of leverage, etc.).

VOTING CLIENT SECURITIES

ITEM 17

We do not vote client proxies. You understand and agree that you retain the right to vote all proxies, which are solicited for securities held in your managed accounts. Any proxy solicitations inadvertently received by us will be immediately forwarded to you for your evaluation and decision.

However if you have specific questions regarding an action being solicited by the proxy that you do not understand or you want clarification, you may contact us and we will help explain the particulars. Keep in mind we will not advise you how to vote.

FINANCIAL INFORMATION

ITEM 18

We bill accounts semi-annually in advance and in excess of \$1,200. We are thus required to provide you an audited balance sheet. Therefore, attached is our most recent audited statement showing our assets and liabilities.

We have not, nor have any of our officers and directors, been the subject of a bankruptcy petition at any time during the past ten years. In addition, our auditors have not expressed any "going concerns" regarding our ability to meet our contractual commitments relating to our discretionary authority over client accounts.

END OF DISCLOSURE BROCHURE

FINANCIAL SERVICES ADVISORY, INC.

Financial Statement

December 31, 2011

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Hildebrand
Limparis &
Associates, CPAs, PC

CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS PERFORMANCE ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Financial Services Advisory, Inc.
Rockville, Maryland

We have audited the accompanying balance sheet of Financial Services Advisory, Inc. as of December 31, 2011. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the balance sheet is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the balance sheet. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall balance sheet presentation. We believe that our audit of the balance sheet provides a reasonable basis for our opinion.

In our opinion, the balance sheet referred to above presents fairly, in all material respects, the financial position of Financial Services Advisory, Inc. as of December 31, 2011 in conformity with accounting principles generally accepted in the United States of America.

Hildebrand, Limparis & Associates, CPAs, PC

March 7, 2012

FINANCIAL SERVICES ADVISORY, INC.

Balance Sheet

See Accompanying Notes to Financial Statement

December 31, 2011

ASSETS

Current Assets:

Cash	\$ 222,369
Accounts receivable	199,295
Prepaid expenses	68,263
Marketable securities	44,638
Total current assets	<u>534,565</u>

Property and Equipment:

Computer equipment	120,372
Furniture and equipment	67,374
Vehicle	29,233
Total	<u>216,979</u>
Less accumulated depreciation	<u>(178,879)</u>
Net property and equipment	<u>38,100</u>

Other Assets:

Security deposit	<u>4,200</u>
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Total Assets

\$ 576,865

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:

Accounts payable	\$ 11,905
Accrued expenses and other payables	54,033
Total current liabilities	<u>65,938</u>

Stockholders' Equity:

Common stock, voting - no par value; 5,000 shares authorized; 100 shares issued and outstanding	10
Common stock, non-voting - no par value; 5,000 shares authorized; 500 shares issued and outstanding	50
Retained earnings	519,154
Accumulated comprehensive loss on marketable securities	<u>(8,287)</u>
Total stockholders' equity	<u>510,927</u>

Total Liabilities and Stockholders' Equity

\$ 576,865

FINANCIAL SERVICES ADVISORY, INC.

Notes to Financial Statement

December 31, 2011

1. Nature of Organization and Summary of Significant Accounting Policies

Organization and Nature of Business

Financial Services Advisory, Inc. was incorporated in January 1982 under the laws of the State of Maryland to provide asset management for individuals, corporations, institutions, IRAs, and other retirement plans. The Company is registered as an investment advisor with the U.S. Securities and Exchange Commission.

Estimates and Assumptions

The preparation of the balance sheet in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of financial statement presentation, the Company considers all highly liquid debt instruments with initial maturities of ninety days or less to be cash equivalents. There are no cash equivalents.

Revenue Recognition

The Company recognizes fee income ratably over the life of the applicable management agreements. Fees collected in advance are deferred to the period in which they are earned.

Allowance for Bad Debts

Accounts are charged to loss on receivables as they are deemed uncollectible based upon a periodic review of accounts. Accounts receivable are stated at the total amount less an allowance for bad debts. The allowance is an amount estimated by management to be adequate to absorb possible losses. No allowance is deemed necessary.

Investments

The Company classifies its marketable debt securities as "held to maturity" if it has the positive intent and ability to hold the securities to maturity. All other marketable securities are classified as "available for sale." Securities classified as held to maturity are carried at amortized cost. Securities classified as "available for sale" are carried in the financial statement at fair value. Realized gains and losses, determined using the first-in, first-out (FIFO) method, are included in earnings; unrealized holding gains and losses are reported in other comprehensive income. Marketable securities reported on the balance sheet represent investment in an equity mutual fund classified as "available for sale". Cumulative unrealized losses are represented in stockholders' equity as accumulated comprehensive loss on marketable securities.

Property and Equipment

Property and equipment is stated at cost and depreciated using the straight-line method over estimated useful lives of three to ten years.

FINANCIAL SERVICES ADVISORY, INC.

Notes to Financial Statement

December 31, 2011

1. Nature of Organization and Summary of Significant Accounting Policies (continued)

Income Taxes

The Company has elected to be taxed as an S Corporation under the provisions of the Internal Revenue Code and applicable state statute whereby the taxable income or loss of the corporation is included in the personal tax returns of the shareholders. Accordingly, no provision for income taxes is reflected in the accompanying financial statement.

For the year ended December 31, 2011, and the open tax years 2010, 2009 and 2008, there is no known unrecognized tax provision or benefit.

2. Retirement Plan

The Company maintains a simplified employee pension plan for all employees who meet certain age and length of service requirements. Contributions are made through voluntary employee salary reductions and discretionary contributions by the Company. Company contributions to the plan total \$115,585 in 2011.

3. Lease Commitments

The Company is co-tenant of office space in Rockville, Maryland under a seven-year operating lease expiring in October 2012, with one five-year renewal option. Current minimum rent is \$10,829 per month with escalations of 3.5% annually. The Company pays 75% of this amount under an informal agreement between the co-tenants. The Company also leases storage space in the same building for \$60 per month on a month-to-month basis.

Future minimum rental payments of the Company's 75% allocated share of the office lease are as follows, for each of the years ending December 31: 2012 - \$81,215.

4. Concentration

The Company had cash on deposit with one bank that exceeded the federally-insured limit by approximately \$70,000 at December 31, 2011.

5. Tangible Net Worth

The Company's tangible net worth, as defined by the rules and regulations of the Securities and Exchange Commission, at December 31, 2011 is \$510,927.

6. Evaluation of Subsequent Events

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through March 7, 2012, the date the financial statement was available to be issued.