

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

**The Pacific Financial Group**

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**This brochure provides information about the qualifications and business practices of The Pacific Financial Group (hereinafter “TPFG”). If you have any questions about the contents of this brochure, please contact Y. Jill Dildine, Chief Compliance Officer at 425.451.7722 or [tpfg@tpfg.com](mailto:tpfg@tpfg.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Additional information about TPFG is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. The CRD number for TPFG is 105203.**

**Item 2. Summary of Material Changes**

In the past we have offered or delivered information about our qualifications and business practices to clients on at least an annual basis. Pursuant to new SEC Rules, we will ensure that you receive a summary of any materials changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

The total amount of Discretionary assets under our firm's management is \$433,341,212 as of December 31, 2011 and Non-Discretionary assets under firm's management were \$12,690,709 as of the same date.

**Item 3.****Table of Contents**

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#### **Item 4.        Advisory Business**

TPFG is a Registered Investment Adviser in the State of Washington with its principal place of business located in Bellevue, Washington. The Pacific Financial Group, Inc. was founded in 1984 with James C. McClendon as CEO and Managing Director. Our boutique firm is structured to provide quality, professional investment advice and excellent service to each client.

As an active money manager, our portfolio management team evaluates and incorporates a broad spectrum of investment tools, including but not limited to Exchange Traded Funds (ETFs), Stocks, Bonds and Mutual Funds. We offer an array of portfolios available as Separately Managed Accounts, Managed Portfolios, Variable Annuity Optimization as well as Retirement Plan Management. We work strategically with professional financial advisors to help their clients achieve their financial goals.

#### **Individual Portfolio Management**

Our firm generally provides investment advisory services to individuals, trusts and companies that are referred to us by other financial professionals; generally Broker/Dealers, Registered Investment Advisors or Registered Representatives.

The referring financial professional provides continuous advice to the client regarding the investment of client funds based on the individual needs of the client. The professionals have personal discussions in which goals and objectives based on a client's particular circumstances are established. The data gathering process is conducted by the referring financial professional and is used to determine the client's individual objectives, time horizons, risk tolerance, and liquidity needs. The professionals also have the client complete a TPFG Risk Analysis/ Investment Election Form as well as review and discuss a client's prior investment history, family composition and background. The client and the financial professional then select a mix of The Pacific Financial Group's investment offerings that best meet the client's goals and risk temperament. Our approach to investment management is what we characterize as "Rational Management". We use Fundamental, Technical and Quantative Investment Analysis blended into what believe is a rational approach to inter-disciplinary investment decision making.

We manage these advisory accounts on a discretionary basis. Account supervision is guided by the client's stated objectives (i.e., maximum capital appreciation, growth, income, or growth and income), as well as risk concerns.

## **We offer Four Different Management Options & Investment Strategies:**

**Separately Managed Accounts (SMA's):** We offer 7 Separately Managed Accounts. This palette of accounts is designed to offer the maximum flexibility to higher net worth clients that desire a maximum in options in their investment decision making. These portfolios are:

- Custom Bond
- Income – Cash Yield
- Absolute Return
- Balanced
- Equity
- Tax Managed
- International

By mixing and blending these accounts a wide range of risk, investment return and tax goals may be met.

Though it can accommodate a minimum investment of \$100,000, many advisors find this option ideal for clients with investable assets of more than \$1,000,000.

**Managed Portfolios (MP's):** We offer 6 different Managed Portfolios. These portfolios are designed to offer the maximum flexibility to all clients. These Managed Portfolios are made up of TPFG's mutual funds to offer the maximum in diversification with the least trading expense. These Managed Portfolios are:

- Income – Total Return
- Absolute Return
- Balanced
- Equity
- Tax Sensitive
- Global

This option leverages TPFG's proprietary mutual funds for maximum efficiency – but without compromising any investment discipline. Each mutual fund represents a specific investment building block which is used in the construction of the portfolios. In addition, TPFG offers an additional 12 blends of these portfolios as an accommodation to our clients to consolidate the overall number of accounts needed. This allows for great efficiencies in the management of the portfolios and accommodates investment of \$10,000 and up. TPFG offers two different shares classes: Institutional Share Class and Investor Share Class. All portfolio options are available under both share classes. For the Investor Share Class, expenses related to distribution and service (12b-1) fees are higher than Institutional Share Class. Please refer to the Mutual Fund Prospectus for additional information.

**Variable Annuity Optimization (VAO):** This option uses sophisticated analytical processes to accurately define variable annuity sub-accounts and arranges these sub-accounts into portfolios that meet the client's investment and risk needs while staying sensitive to the ongoing fixed income and equity market. The benchmarks for these portfolios are unique to each variable annuity company because the limited number of available sub-accounts usually prohibits a valid comparison to the United States Broad Equity of Fixed Income Market. The Portfolios we make available are:

- Moderate
- Moderately Aggressive

**Retirement Plan Management (RPM):** This option is ideal for 401(k), 403(b), 401(a), or 457 plans that are held at various custodians. TPFPG offers turnkey and custom plans using the mutual funds and/or assets classes offered by the sponsoring company. TPFPG accepts full fiduciary responsibility for managing accounts. Further, TPFPG provides a legal safe harbor as defined by the applicable sections of the ERISA federal retirement law and the Internal Revenue Service Code. The Portfolios we make available are:

- Conservative
- Moderately Conservative
- Moderate
- Moderately Aggressive
- Aggressive

If we are able to use our own managed portfolios, the Portfolios available are:

- Income – Total Return
- Absolute Return
- Balanced
- Equity
- Tax Sensitive
- Global

The Institutional and Investor Share Classes are both available but dependent upon the custodian and retirement plan to determine the class that is used. In addition, TPFPG offers “Blends” or mixtures of the above 6 portfolios. These blends are offered as an accommodation to our clients to consolidate the overall number of accounts needed. Expenses related to the distribution and service (12b-1) fees are different between share classes. Please refer to the Mutual Fund Prospectus for additional information.

*Risk Analysis/Investment Election:*

Risk Analysis is primarily achieved through the client completing TPFPG's Risk

Analysis/Investment Election Form and consulting with the financial professional that is referring them to TPFG. The Risk Assessment Questionnaire leads the client to a suggested blend of TPFG accounts, however the most important part of the process is the evaluation made by the referring financial professional in their counseling meetings with the client.

The Investment Election is made by the client in concert with their financial professional.

TPFG is available to consult with the client or that financial professional.

We conduct an analysis of the paper work submitted when the account is opened. If the selection seems un-suitable for the client, TPFG will contact the client and the financial professional for clarification.

### **Mutual Fund Portfolio Management**

TPFG serves as investment adviser to Pacific Financial Family of Mutual Funds (the "Mutual Fund"), an affiliated open end mutual fund registered under the Investment Company Act of 1940, as well as to advisory accounts which utilize a mutual fund allocation program and to other separately managed accounts.

TPFG serves as the investment manager to the Mutual Fund, and continuously manages the fund assets based on the investment goals and objectives as outlined in the Mutual Fund's prospectus.

The Pacific Financial Group, Inc. manages five mutual funds which are part of the Northern Lights Fund Trust. These funds are not marketed to the general public, but are used by The Pacific Financial Group, Inc. and building blocks for their Managed Portfolios.

The Funds are:

- the Pacific Financial Core Equity Fund
- the Pacific Financial Explorer Fund
- the Pacific Financial International Fund
- the Pacific Financial Strategic Conservative Fund
- the Pacific Financial Tactical Fund

Subject to the authority of the Board of Trustees of the Northern Lights Trust, The Pacific Financial Group, Inc. is responsible for the overall management of each Fund's business affairs. TPFG is responsible for selecting each Fund's investments according to that Fund's investment objective, policies and restrictions.

Interested investors should refer to the Mutual Fund's prospectus and Statement of Additional Information ("SAI") for important information regarding objectives, investments, time-horizon, risks, fees, and additional disclosures. These documents are available on-line at [www.tpfg.com](http://www.tpfg.com).

Prior to making any investment in the fund, investors and prospective investors should carefully review these documents for a comprehensive understanding of the terms and conditions applicable for investment in the Mutual Fund. The Pacific Financial family of mutual funds is comprised of five different actively managed funds. Each Fund is a diversified series of Northern Lights Fund Trust, an open-end investment management company.

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#### **Item 5. Fees and Compensation**

Advisory fees are based on the value of the account at the beginning of each calendar quarter and are normally billed one quarter in advance.

As part of their investment advisory services, TPFG will from time to time perform a mathematical projection of a client's present and future capital needs based upon facts, assumptions, and risk tolerance provided by the client via the Risk Analysis/Investment Election form completed by the client. While this service may assist the client in making decisions as to investment strategy, amount to invest, or investment pattern, it is not a substitute for expert assistance in the field of tax, legal or financial planning.

The Fee Schedule is noted below. The External Annual Fee is deducted from a client's account on a quarterly basis as described above. Clients also have the option of paying the quarterly management fee directly.

Assets under Management Annual Fee for Variable Annuities and Separately Managed Account Portfolios:

<b>Assets Under Management</b>	<b>External Annual Fee</b>
\$0 TO \$500,000	2.00%
\$500,001 TO \$3,000,000	1.50%
\$3,000,001 TO \$5,000,000	1.00%
\$5,000,001 TO \$10,000,000	.80%
\$10,000,001 and up	SUBJECT TO NEGOTIATION



Assets under Management Annual Fee for Managed Mutual Fund Portfolios  
Institutional Class:

<b>Assets Under Management</b>	<b>External Annual Fee</b>
\$0 TO \$500,000	1.50%
\$500,001 TO \$3,000,000	1.125%
\$3,000,001 TO \$5,000,000	.80%
\$5,000,001 TO \$10,000,000	.65%
\$10,000,001 and up	SUBJECT TO NEGOTIATION

Assets under Management Annual Fee for Managed Mutual Fund Portfolios  
Investor Class:

<b>Assets Under Management</b>	<b>Internal Annual Fee</b>
\$0 and up	Up to .1.00% which is paid to the Solicitor from Mutual Fund Management and 12b-1 Fee Income

For Clients that invest in the Investor Share Class - Managed Mutual Fund Strategy, all of the management fees are deducted from the mutual funds themselves.

Occasionally, various related client accounts may be grouped together to qualify for reduced advisory fees. This format is called "family billing." The Conservative Account is managed at 50% of the above stated fee schedule. When accounts are grouped together to qualify for reduced fees (family billing) under the same billing fee schedule, the Conservative Account will not be included with these accounts for billing purposes. Some advisory accounts are being managed at a reduced charge or at no charge. These fees may be amended from time to time with written notice.

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

In addition to TPFG's advisory fees, clients are also responsible for the fees and expenses charged by custodians and imposed by broker dealers, including, but not limited to, any transaction charges imposed by a broker dealer with which an independent investment manager effects transactions for the client's account(s).

TPFG does not take custody of assets. They are held in street name, in the client's name at the broker/dealer or custodian of the client's choice. TPFG executes trading for the clients' account via a limited power of attorney executed by each client, granting trading privileges to TPFG. This gives TPFG discretionary authority to trade clients' accounts without prior notification of the trades to the clients. These same assets will also be subject to additional fees and expenses as set forth in the prospectuses of those funds and variable annuities, and fees and expenses charged by the various custodians. These fees and expenses are ultimately borne by the client. Clients may request from their custodian(s) to receive trade confirmations and prospectuses. This election may be made at any time by the client, and may be changed at any time by the client.

It is the responsibility of the client to verify the accuracy of the fee calculation. The client may terminate the investment advisory contract by notifying TPFG in writing at its principal place of business.

A client agreement may terminate the investment advisory contract by notifying TPFG in writing at its principal place of business or by TPFG for any reason upon receipt of 30 days written notice. The client has the right to terminate an agreement without penalty within five business days after entering into the agreement, any prepaid, unearned fees will be promptly refunded. As disclosed above, fees are paid in advance of services provided. In calculating a client's reimbursement of fees, TPFG will pro rate the reimbursement according to the number of days remaining in the quarter.

Comparable services may be available elsewhere for less.

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

It is the policy of TPFG that it will not charge performance-based fees.

#### **Item 7. Types of Clients**

TPFG generally provides advisory services to individuals, pension and profit sharing plans, trusts, estates, charitable organizations, corporations and other business entities.

TPFG recommends the following minimum dollar value of assets for starting an account:

Managed Mutual Fund Strategies:	\$ 10,000 minimum
Separately Managed Accounts:	\$100,000 minimum
Variable Annuity Optimization:	\$ 10,000 minimum

TPFG can, at its sole discretion, waive the minimum amount requirements at their sole discretion.

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

We use the following methods of analysis to determine which securities to buy, sell or hold:

Fundamental analysis. We attempt to measure the intrinsic value of a security by looking at economic and financial factors (including the overall economy, industry conditions, and the financial condition and management of the company itself) to determine if the company is underpriced (indicating it may be a good time to buy) or overpriced (indicating it may be time to sell).

Fundamental analysis does not attempt to anticipate market movements. This presents a potential risk, as the price of a security can move up or down along with the overall market regardless of the economic and financial factors considered in evaluating the stock.

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

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

Cyclical analysis: In this type of technical analysis, we measure the movements of a particular stock against the overall market in an attempt to predict the price movement of the security.

Charting: In this type of technical analysis, we review charts of market and security activity in an attempt to identify when the market is moving up or down and to predict when how long the trend may last and when that trend might reverse.

Quantitative analysis: We use mathematical models in an attempt to obtain more accurate measurements of a company's quantifiable data, such as the value of a share price or earnings per share, and predict changes to that data.

A risk in using quantitative analysis is that the models used may be based on assumptions that prove to be incorrect.

The Pacific Financial Group blends Fundamental, Technical and Quantitative Analysis into to a blended approach we describe as Rational Analysis.

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

In addition to the previous methods of analysis, TPFG obtains pricing information, dividends, corporate filings, published research, and their fundamental information through various publishers and computer data base companies; including IDC Pricing Service, Dial Data Inc., Reuters, Morningstar Information Service, Zack's, Ibbotson's, The Institute for Econometric Research, Inc., Value Line, Argus, La Jolla Economics, Annuity Pricing Center, Standard & Poors, and PerTrac.

TPFG uses numerous sources of information on the Internet and World Wide Web, such as Briefing.com, Quote.com, StockCharts.com, and finance.yahoo.com, for timely information on the economy and individual companies.

### **Investment Strategies**

We use the following strategies in managing client accounts:

Long-term purchases: We purchase securities with the idea of holding them in the clients account for a year or longer. We may do this because we believe the securities to be currently undervalued. We may do this because we want exposure to a particular asset class over time, regardless of the current projection for this class.

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

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

A risk in a short-term purchase strategy is that, should the anticipated price swing not materialize, we are left with the option of having a long-term investment in a security that was designed to be a short-term purchase, or potentially taking a loss. In addition, this strategy involves more frequent trading than does a longer-term strategy, and will result in increased brokerage and other transaction-related costs, as well as less favorable tax treatment of short-term capital gains.

Trading: We purchase securities with the idea of selling them very quickly (typically within 30 days or less). We do this in an attempt to take advantage of our predictions of brief price swings.

A risk in a short-term purchase is the potential for sudden losses if the anticipated price swing does not materialize. Moreover, should the anticipated price swing not materialize, we are left with the option of having a long-term investment in a security that was designed to be a short-term purchase, or potentially taking a loss. In addition, this strategy involves more frequent trading than does a longer-term strategy, and will result in increased brokerage and other transaction-related costs, as well as less favorable tax treatment of short-term capital gains.

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

The two types of options are calls and puts:

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

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

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

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

A risk of covered calls is that the option buyer does not have to exercise the option, so that if we want to sell the stock prior to the end of the option agreement, we have to buy the option back from the option buyer, for a possible loss.

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

A risk of spreading strategies is that the ability to fully profit from a price swing is limited.

Short Sales: Short Sales are not made but purchases of negative beta mutual funds and Exchange Traded Funds (“ETF”)s are made from time to time. A negative beta means that the stock is inversely correlated with the market. Many precious metals and precious-metal-related stocks are beta-negative as their value tends to increase when the general market is down and vice versa.

### **Risk of Loss**

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

### **Item 9. Disciplinary Information**

Our firm has no reportable disciplinary events to disclose.

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

Clients should be aware that the receipt of additional compensation by our firm and its management persons or employees creates a conflict of interest that may impair the objectivity of our firm and these individuals when making advisory recommendations. TPGF endeavor at all times to put the interest of its clients first as part of its fiduciary duty as a registered investment adviser and takes the following steps to address this conflict:

- We disclose to clients the existence of all material conflicts of interest, including the potential for our firm and its employees to earn compensation from advisory clients in addition to our advisory fees;
- We collect, maintain and document accurate, complete and relevant client background information, including the client's financial goals, objectives and risk tolerance;
- Our management conducts regular reviews of each client account to verify that all recommendations made to a client are suitable to the client's needs and circumstances;
- We require that our employees seek prior approval of any outside employment activity so that we may ensure that any conflicts of interests in such activities are properly addressed;
- We periodically monitor these outside employment activities to verify that any conflicts of interest continue to be properly addressed by our firm; and
- We educate our employees regarding the responsibilities of a fiduciary, including the need for having a reasonable and independent basis for the investment advice provided to clients.

**Item 11. Code of Ethics, Participation in Client Transactions and Personal Trading**

Our firm has adopted a Code of Ethics which sets forth high ethical standards of business conduct that we require of our employees, including compliance with applicable federal securities laws. When individuals who are employed by or associated with TPFPG purchase or sell listed securities, preclearance is required for IPO's, private or limited offerings and "hot issues." This is disclosed in the Code of Ethics, which all employees sign on an annual basis. All employee trades are monitored by management of TPFPG to ensure that they are in compliance with U.S. Securities and Exchange Commission regulations. Duplicate statements and trade confirmations are received and maintained in the Compliance Department. All Employees complete a quarterly Personal Trading report. Employees or associates of TPFPG are prohibited from soliciting sales or giving investment advice on closely held securities, thinly traded securities, or any securities in which they have a material interest. No securities are placed in client accounts in which any employees or associates of TPFPG have a material interest or are thinly traded or closely held.

On an annual basis, all employees are required to sign TPFPG Code of Ethics, in which they acknowledge their duty of loyalty to the firm's clients and their placing the clients' interests first and foremost before their own. By signing this document, all employees also acknowledge that they will not participate in insider trading, that they will keep client information confidential, and that they will report their trading activity and holdings. Our code provides for oversight, enforcement

and recordkeeping provisions. A copy of the Code of Ethics may be requested by contacting the Compliance Officer for TPFPG at 800-735-7199.

From time to time, proprietary accounts may be aggregated with client accounts for trading purposes. At no time is any advisory account favored over any other account participating in the aggregated order. All accounts participating in the aggregate order shall receive an average share price with all other transaction costs shared on a prorata basis.

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

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

As these situations represent a conflict of interest, we have established the following restrictions in order to ensure its fiduciary responsibilities:

1. No principal or employee of our firm may 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 on reasonable inquiry. No principal or employee of our firm may prefer his or her own interest to that of the advisory client.
2. We maintain a list of all securities holdings for our firm and anyone associated with this advisory practice with access to advisory recommendations. These holdings are reviewed on a regular basis by TPFPG's CCO.
3. We emphasize the unrestricted right of the client to decline to implement any advice rendered, except in situations where our firm is granted discretionary authority.
4. All of our principals and employees must act in accordance with all applicable Federal and State regulations governing registered investment advisory practices.

Any individual not in observance of the above may be subject to termination.



## **Item 12. Brokerage Practices**

TPFG will endeavor to select those brokers or dealers which will provide the best services at the lowest commission rates possible. The reasonableness of commissions is based on the broker's stability, reputation, ability to provide professional services, competitive commission rates and prices, research, trading platform, and other services which will help TPFG in providing investment management services to clients. TPFG may, therefore recommend (or use) the use of a broker who provides useful research and securities transaction services even though a lower commission may be charged by a broker who offers no research services and minimal securities transaction assistance. Research services may be useful in servicing all our clients, and not all of such research may be useful for the account for which the particular transaction was effected.

Consistent with obtaining best execution for clients, TPFG may direct brokerage transactions for clients' portfolios to brokers who provide research and execution services to TPFG and, indirectly, to TPFG clients. These services are of the type described in Section 28(e) of the Securities Exchange Act of 1934 and are designed to augment our own internal research and investment strategy capabilities. This may be done without prior agreement or understanding by the client (and done at our discretion). Research services obtained through the use of soft dollars may be developed by brokers to whom brokerage is directed or by third-parties which are compensated by the broker. TPFG does not attempt to put a specific dollar value on the services rendered or to allocate the relative costs or benefits of those services among clients, believing that the research we receive will help us to fulfill our overall duty to our clients. TPFG may not use each particular research service, however, to service each client. As a result, a client may pay brokerage commissions that are used, in part, to purchase research services that are not used to benefit that specific client. Broker-dealers we select may be paid commissions for effecting transactions for our clients that exceed the amounts other broker-dealers would have charged for effecting these transactions if TPFG determines in good faith that such amounts are reasonable in relation to the value of the brokerage and/or research services provided by those broker-dealers, viewed either in terms of a particular transaction or our overall duty to its ('brokerage') discretionary client accounts.

Certain items obtainable with soft dollars may not be used exclusively for either execution or research services. The cost of such "mixed-use" products or services will be fairly allocated and TPFG makes a good faith effort to determine the percentage of such products or services which may be considered as investment research. The portions of the costs attributable to non-research usage of such products or services are paid by our firm to the broker-dealer in accordance with the provisions of Section 28(e) of the Securities Exchange Act of 1934.

When TPFG uses client brokerage commissions to obtain research or brokerage

services, we receive a benefit to the extent that TPFG does not have to produce such products internally or compensate third-parties with our own money for the delivery of such services. Therefore, such use of client brokerage commissions results in a conflict of interest, because we have an incentive to direct client brokerage to those brokers who provide research and services we utilize, even if these brokers do not offer the best price or commission rates for our clients.

Within our last fiscal year, we have obtained the following products and services on a soft-dollar basis:

TPFG has a soft dollar arrangement with Ceros Financial Services, Inc. The soft dollar arrangement includes only actual trades within each of the mutual fund portfolios (5 funds) themselves. In most cases, the Mutual Fund portfolios are traded at least monthly, if not weekly. Due to the current financial marketing conditions, there is continuous monitoring of the funds which requires trading and rebalancing. The fund administrator is Gemini Fund Services, LLC. The types of research services and products provided to TPFG include:

- Earnings information and estimates
- Stock quote systems
- Trading systems
- Data fees from stock exchanges
- Software programs for analysis and research
- Market data
- Seminars or conferences that provide substantive content relating to issuers, industries or securities
- Trade magazines and technical journals
- Proxy services
- Quantitative analytical software.
- Pre-trade and post-trade analytics

These services and products permit TPFG to supplement its own research and analysis.

TPFG conducts periodic soft-dollar reviews, analyzing price and commissions offered by the various brokers used and volume of client commissions directed to each broker. Moreover, we perform a qualitative ranking of all brokers used by interviewing and/or polling our trading staff.

Brokers that TPFG selects to execute transactions may from time to time refer clients to TPFG. TPFG will not make commitments to any broker or dealer to compensate that broker or dealer through brokerage or dealer transactions for client referrals; however, a potential conflict of interest may arise between the client's interest in obtaining best price and execution and TPFG's interest in receiving future referrals.

Clients participating in a third-party advisory program that invests in mutual funds or securities offered by other registered investment companies should be aware that the investment companies pay investment advisory or management fees to investment advisers and others, and pay marketing or service fees (including without limitation so-called "12b-1 fees") to broker-dealers and others (including, in some cases, the third-party adviser or its affiliates) who provide services to or for the fund or its shareholders. These fees constitute indirect expenses ultimately borne by the client, and are in addition to the investment advisory fees paid by the client to the third-party adviser.

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

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

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

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

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

- (i) provide access to client account data (such as trade confirmations and account statements);
- (ii) facilitate trade execution and allocate aggregated trade orders for multiple client accounts;
- (iii) provide research, pricing and other market data;
- (iv) facilitate payment of our fees from clients' accounts; and
- (v) assist with back-office functions, recordkeeping and client reporting.

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

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

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

TPFG has agreed to pay Schwab a Participation Fee on all referred clients' accounts that are maintained in custody at Schwab and a Non-Schwab Custody Fee on all accounts that are maintained at or transferred to another custodian.

The Participation Fee paid by TPFPG is a percentage of the fees that the client pays to TPFPG or a percentage of the value of the assets in the client's account, subject to a minimum Participation Fee. TPFPG pays Schwab the Participation Fee for as long as the referred client's account remains in custody at Schwab. This fee is billed to TPFPG quarterly and may be increased, decreased or waived by Schwab from time to time. TPFPG has agreed not to charge advisor clients introduced by the Service fees or costs greater than the fees or costs TPFPG charges its advisory clients who were not introduced by the service, and who have similar portfolios under management with TPFPG.

TPFG participates in the institutional customer program offered by TD Ameritrade Institutional. TD Ameritrade Institutional is a division of TD Ameritrade Inc.,

member SIPC ("TD Ameritrade"), an unaffiliated SEC-registered broker-dealer and FINRA member. TD Ameritrade offers services to independent investment advisers which include custody of securities, trade execution, clearance and settlement of transactions. TPFPG receives some benefits from TD Ameritrade through our participation in the program.

TPFPG participates in TD Ameritrade's Institutional customer program and we may provide the option for clients to maintain accounts with TD Ameritrade for custody and brokerage services. There is no direct link between our firm's participation in the program and the investment advice we give to our clients, although we receive economic benefits through our participation in the program that are typically not available to TD Ameritrade retail investors.

These benefits include the following products and services (provided without cost or at a discount): duplicate client [statements and] confirmations; research related products and tools; consulting services ; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts); the ability to have advisory fees deducted directly from client accounts; access to an electronic communications network for client order entry and account information; access to mutual funds with no transaction fees and to certain Institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to TPFPG by third party vendors. TD Ameritrade may also pay for business consulting and professional services received by TPFPG related persons and may also pay or reimburse expenses (including travel, lodging, meals and entertainment expenses) for TPFPG personnel to attend conferences or meetings relating to the program or to TD Ameritrade's adviser custody and brokerage services generally.

Some of the products and services made available by TD Ameritrade through the program may benefit TPFPG but may not benefit our client accounts. These products or services may assist us in managing and administering client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help us manage and further develop our business enterprise. The benefits received by TPFPG through participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade. Clients should be aware, however, that the receipt of economic benefits by TPFPG or our related persons in and of itself creates a potential conflict of interest and may indirectly influence our choice of TD Ameritrade for custody and brokerage services.

TD Ameritrade provides the Additional Services to our firm in its sole discretion and at its own expense, and TPFPG does not pay any fees to TD Ameritrade for the Additional Services. TPFPG and TD Ameritrade have entered into a separate agreement ("Additional Services Addendum") to govern the terms of the provision of the Additional Services.

TPFG receipt of Additional Services raises potential conflicts of interest. In providing Additional Services to our firm, TD Ameritrade most likely considers the amount and profitability to TD Ameritrade of the assets in, and trades placed for, our client accounts maintained with TD Ameritrade. TD Ameritrade has the right to terminate the Additional Services Addendum with TPFG, in its sole discretion, provided certain conditions are met. Consequently, in order to continue to obtain the Additional Services from TD Ameritrade, we may have an incentive to recommend to our clients that the assets under management by us be held in custody with TD Ameritrade and to place transactions for client accounts with TD Ameritrade.

TPFG receipt of Additional Services does not diminish our duty to act in the best interests of our clients, including seeking best execution of trades for client accounts.

TPFG has an arrangement with National Financial Services LLC, and Fidelity Brokerage Services LLC (together with all affiliates, "Fidelity") through which Fidelity provides our firm with their "platform" services for a number of investment advisory clients that use Fidelity Investments as the custodian for their investment portfolios. The platform services include, among others, brokerage, custodial, administrative support, record keeping and related services that are intended to support intermediaries like TPFG in conducting business and in serving the best interests of our clients but that may also benefit us. Fidelity charges brokerage commissions and transaction fees for effecting certain securities transactions (i.e., transactions fees are charged for certain no-load mutual funds, commissions are charged for individual equity and debt securities transactions). Fidelity enables TPFG to obtain many no-load mutual funds without transaction charges and other no-load funds at nominal transaction charges. Fidelity's commission rates are generally considered discounted from customary retail commission rates. However, the commissions and transaction fees charged by Fidelity may be higher or lower than those charged by other custodians and broker-dealers. As part of the arrangement, Fidelity also makes available to our firm, at no additional charge to us, certain research and brokerage services, including research services obtained by Fidelity directly from independent research companies, as selected by TPFG (within specified parameters). These research and brokerage services presently include services such as duplicate client [statements and] confirmations; research related products and tools; consulting services ; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to client accounts); the ability to have advisory fees deducted directly from client accounts; access to an electronic communications network for client order entry and account information; access to mutual funds with no transaction fees and to certain Institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to TPFG by third party vendors. Fidelity may also

pay for business consulting and professional services received by TPFPG related persons and may also pay or reimburse expenses (including travel, lodging, meals and entertainment expenses) for TPFPG personnel to attend conferences or meetings relating to the program or to Fidelity's adviser custody and brokerage services generally.

As a result of receiving such services for no additional cost, we may have an incentive to continue to use or expand the use of Fidelity's services. We examined this potential conflict of interest when we chose to enter into the relationship with Fidelity and have determined that the relationship is in the best interests of TPFPG clients and satisfies our client obligations, including our duty to seek best execution. A client may pay a commission that is higher than another qualified broker-dealer might charge to effect the same transaction where we determine in good faith that the commission is reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services, including the value of research provided, execution capability, commission rates, and responsiveness. Accordingly, while TPFPG will seek competitive rates, to the benefit of all clients, we may not necessarily obtain the lowest possible commission rates for specific client account transactions. Although the investment research products and services that may be obtained by us will generally be used to service all of our clients, a brokerage commission paid by a specific client may be used to pay for research that is not used in managing that specific client's account. TPFPG and Fidelity are not affiliated.

TPFPG has an arrangement with Pershing Advisor Solutions, LLC, a subsidiary of The Bank of New York Mellon (together with all affiliates, "Pershing") through which Pershing provides our firm with their "platform" services. The platform services include, among others, brokerage, custodial, administrative support, record keeping and related services that are intended to support intermediaries like TPFPG in conducting business and in serving the best interests of our clients but that may also benefit us. In addition, investment advisory clients have also elected to use Hewitt Financial Services for their retirement investment plans which are traded through Pershing Advisor Solutions, LLC.

TPFPG also has arrangements with State Street Global Markets, LLC through which State Street provides our firm with their "platform" services. The platform services include brokerage, custodial, record keeping and related services that are intended to support intermediaries like TPFPG in conducting business and in servicing the best interest of our clients for their self-directed retirement plans. All trades are processed through National Financial Services, LLC ("Fidelity").

Investment advisory clients have elected to use various custodians such as Vanguard, Inc. and Wells Fargo among others and to effect trades for their accounts.

A material number of clients have their custodians either Prudential, Security Benefit, Pacific Life, Consec-Jefferson National, ING, TIAA/CREF, USAllianz, Allmerica Commonwealth, Equitable, Lincoln Benefit, The Hartford, Jackson National, and Sun America/Anchor National as the insurance company which holds their variable annuity contract.

The Pacific Financial Group, Inc. does not sell any variable annuity or any other type of insurance product, and only acts as a third-party investment adviser on the contracts per authorization by each client.

### **Item 13. Review of Accounts**

Investment Supervisory Services (“ISS”)

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

Reviewers include James C. McClendon, Managing Director and Senior Portfolio Manager, Keith Swanson, Portfolio Manager and Jennifer Enstad, Portfolio Manager.

Reviewers review accounts based on standing instructions established through the Risk Analysis/Investment Election Form executed by the client. Reviews are conducted with the aid of computer models, which match the client's desires. In addition, the Chief Compliance Officer, Y. Jill Dildine, reviews the client's initial management agreement and Risk Analysis/Investment Election Form prior to investing to ensure completeness and that the client's investor risk score coincides with their portfolio preference. Reviews for Private Clients are also conducted by TPFG Financial Consultant such as Jake Chow and/or Megan P. Meade, President on an on-going basis.

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

### **MUTUAL FUND MANAGEMENT**

**REVIEWS:** TPFG continually reviews and monitors the Mutual Fund's holdings in accordance with the investment objectives as detailed in the Fund



Prospectus.

**REPORTS:** Clients should refer to the Fund Prospectus for information regarding regular reports to the fund by TPFG.

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

TPFG may pay referral fees to independent persons or firms ("Solicitors") for introducing clients to us. Whenever we pay a referral fee, we require the Solicitor to provide the prospective client with a copy of this document (our *Firm Brochure*) and a separate disclosure statement that includes the following information:

- the Solicitor's name and relationship with our firm;
- the fact that the Solicitor is being paid a referral fee;
- the amount of the fee; and
- whether the fee paid to us by the client will be increased above our normal fees in order to compensate the Solicitor.

As a matter of policy, TPFG and Investment advisory representatives ("IAR's") and solicitors who refer clients may receive a fee split of the cash flow derived from the client's fees. At the option of The Pacific Financial Group, Inc., additional fee compensation could be paid to the IAR or solicitor, or a Registered Investment Advisor with whom TPFG has a written selling agreement. Under no circumstances nor at any time is a referred client charged a fee greater than they would have paid had they come directly to The Pacific Financial Group, Inc.

Sometimes clients receive partial fee abatement for referring clients to the firm. As a matter of firm practice, the advisory fees paid to us by clients referred by solicitors are not increased as a result of any referral.

#### **Item 15. Custody**

As previously disclosed TPFG directly debits advisory fees from client accounts.

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

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

Clients are sent statements with a description of all activities in the client's accounts directly from the custodian of the assets either on a monthly or quarterly basis. Quarterly TPFPG sends to Clients a quarterly account summary, transaction summary, statement of realized gains and losses and a quarterly newsletter (generic). Annually TPFPG sends to Clients: an annual transaction summary (if requested), a statement of interest, dividends, and expenses and a statement of realized gains and losses.

In order to ensure that all account transactions, holdings and values are correct and current, TPFPG urges clients to compare our firm's statement with the statement you receive directly from your qualified independent brokerage or bank custodian.

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

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

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

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

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

#### **Item 17.      Voting Client Securities**

We have discretion to vote proxies for our clients, we will vote those proxies in the best interests of its clients and in accordance our established policies and procedures. Our firm will retain all proxy voting books and records for the requisite period of time, including a copy of each proxy statement received, a record of each vote cast, a copy of any document created by us that was material to making a decision how to vote proxies, and a copy of each written client request for information on how the adviser voted proxies.

If our firm has a conflict of interest in voting a particular action, we will notify the client of the conflict and retain an independent third-party to cast a vote.

Clients may obtain a copy of our complete proxy voting policies and procedures

by contacting Jill Dildine, Chief Compliance Officer, directly. Clients may request, in writing, information on how proxies for his/her shares were voted. If any client requests a copy of our complete proxy policies and procedures or how we voted proxies for his/her account(s), we will promptly provide such information to the client. Should TPFG receive any requests from clients regarding proxy voting, we will maintain a record of the requests from specific clients, which will include:

- Name of the Client
- Date that the request was received
- Whether the request was for a complete or partial record of proxy votes
- The documents provided
- Date that the information was sent to the client

We will neither advise nor act on behalf of the client in legal proceedings involving companies whose securities are held in the client's account(s), including, but not limited to, the filing of "Proofs of Claim" in class action settlements. If desired, clients may direct us to transmit copies of class action notices to the client or a third party. Upon such direction, we will make commercially reasonable efforts to forward such notices in a timely manner.

In addition, should a client direct us to vote a proxy in a specific manner we would document our recommendation and vote the proxy according to the client's wishes.

#### **Item 18. Financial Information**

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