

## Item 1 – Cover Page

# Professional Financial Advisors, Inc

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This Brochure provides information about the qualifications and business practices of Professional Financial Advisors, Inc. (PFA). If you have any questions about the contents of this Brochure, please contact us at (949) 493 5900 or [cmann@Prof-Fin-Advisors.com](mailto:cmann@Prof-Fin-Advisors.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.

Professional Financial Advisors, Inc. is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information about which you determine to hire or retain an Adviser.

Additional information about Professional Financial Advisors, Inc. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2 – Material Changes

On July 28, 2010, the United State Securities and Exchange Commission (SEC) published “Amendments to Form ADV” which amends the disclosure document that we provide to clients as required by SEC Rules. This Brochure is a document prepared according to the SEC's requirements and rules.

In the future, this Item will discuss only specific material changes that are made to the Brochure and provide clients with a summary of such changes. We will also reference the date of our last annual update of our brochure. \_

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, if any, to this and subsequent Brochures within 120 days of the close of our business' fiscal year which is October 31. We will further provide other ongoing disclosure information about material changes as necessary.

We may further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

Prospective or current clients may request our Brochure by contacting Charles Mann at (949) 493 5900x204 or [cmann@Prof-Fin-Advisors.com](mailto:cmann@Prof-Fin-Advisors.com).

Additional information about Professional Financial Advisors, Inc is also available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

This year according to the law changes required by the Securities and Exchange Commission (SEC) the firm had to switch regulators from the SEC to the state of California and in any other state that the firm is registered. This change will not materially affect current or future client services provided by the firm.

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## **Item 4 – Advisory Business**

Professional Financial Advisors, Inc. started in 1979 and incorporated in California in 1983 by Charles Mann who is the principal shareholder.

PFA offers a variety of financial planning services for individuals, pension plans, trusts and estates, corporations and businesses for which it charges a fee. Most of the advisory services are financial planning related. Services range from general financial planning, to specific plans such as income tax projections, retirement, estate, college and insurance planning and business strategies as well as portfolio asset management (PAM). Fees are charged on a fixed fee for service, as a percentage of assets under management, or on an hourly basis. Each service is customized to meet the varying levels of a client's financial needs and objectives.

This brochure has been prepared with the information filed with the Securities and Exchange Commission (SEC) in Part 2 of Form ADV. The information in this brochure regarding PFA, its Financial Advisors (FA), its services and the business practices described herein have not been passed upon or approved by the SEC. The firm is currently regulated by the Department of Corporations of California and any other state in which it provides services and not by the SEC. Any client may request a copy of this brochure on an annual basis upon request to PFA, at no charge.

## **Item 5 – Fees and Compensation**

There are in general two different fees: planning fees, which are typically one time project-based fees and Portfolio Asset Management (PAM) asset management fees, which are typically charged quarterly, as a percent of assets under management, as long as assets are managed by FA.

Fees are always estimated by the FA ahead of time to give the client an approximate understanding of the cost and scope of the work. Fees for these custom services are subject to negotiation with the client and are usually based on an hourly fee which ranges between \$250 and \$450 per hour for a senior planner and \$100 per hour for a paraplanner.

The specific manner in which fees are charged by PFA is established in a client's written agreement with PFA. PAM fees are generally billed on a quarterly basis in arrears. Clients may also elect to be billed directly for fees or to authorize PFA to direct the custodian to calculate and debit fees from client accounts. The amount of fees is based on the assets managed as of the last day of the quarter in which fees are charged. Management fees shall not be prorated for each capital contribution and withdrawal made during the applicable calendar quarter. Accounts initiated or terminated during a calendar quarter will be charged a prorated fee. Upon termination of any account, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable.

PFA's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. Clients may incur certain charges not by PFA but imposed by

custodians, brokers, third party investment and other third parties such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds and exchange traded funds also charge internal management fees, which vary between funds and are disclosed in a fund's prospectus.

Such charges, fees and commissions are exclusive of and in addition to PFA's fee, and PFA shall not receive any portion of these commissions, fees, and costs.

Item 12 further describes the factors that PFA considers in selecting or recommending broker-dealers for transactions and determining the reasonableness of their compensation (*e.g.*, commissions).

The fees for Portfolio Asset Management (PAM) are based on assets under management and a one time set up fee of \$600 for establishing the account or transferring an existing account. Fees may be negotiated and charged at the discretion of the FA but in no case more than the following schedule: (see attached schedule as of March 31, 2011).

Market Value <u>of account</u>	Annual <u>Rate</u>	Quarterly <u>Rate</u>
Through \$499,999	1.50%	0.3750%
\$500,000 through \$999,999	1.25%	0.3125%
\$1,000,000 through \$1,999,999	1.00%	0.2500%
\$2,000,000 and above	0.75	0.1875%

As an example of the fee calculation, if a client's assets at the end of a quarter are \$800,000 then the quarterly fee would be calculated at 0.3750% of \$499,999 and 0.3125% of \$300,001 for a total of \$2,812.50 (1,875.00 + 937.50).

The fee is calculated by multiplying the quarterly rate (see fee schedule above) by the market value of the account on the last day of the quarter (that the agreement is renewed). The FA will send a quarterly statement to the client indicating the market value of the account on the last day of the quarter and the amount of the fee. If an account is opened after the first day of the quarter, the fee will be calculated on a prorated basis, based on the amount(s) deposited in the account and the number of days PFA has managed the account during that quarter.

A portion of the advisory fee collected by PFA is paid as compensation to the FA. FA can use "no-load" as well third party broker-dealers in which the FA receive no compensation for executing transactions. Since the FA may also be affiliated with a broker/dealer handling the investor's account, a potential conflict of interest may exist. Complete disclosure and client understanding is always a good cure for a client to feel comfortable with what a FA is potentially earning on their account. The FA will not double

charge or may reduce PAM fees if the investments used charges “distribution or service” 12b-1 fees from the sale of mutual funds or variable annuities. This may happen if the implementation of investments takes place with the broker/dealer through which the FA is affiliated. Clients always have the option of asking the FA to use independent, third party broker-dealers for investment implementation, with the understanding that the client may pay higher fees for the execution.

If the Client decides to implement any portion of the plan or other investment advice through the FA or Pacific Financial Associates, Inc. then the FA may receive commissions paid by the sponsors of the securities and insurance policies in which investments are made. It is recognized by the FA and the Client that this will place the FA in a potential conflict of interest as advisor to sponsor. If any securities or insurance purchases are made through the FA, consent is given by Client to the payment of such commissions. Professional Financial Advisors, Inc. will not receive any compensation in connection with the sale of any securities or insurance products by or through any of its, affiliated planners. PFA will receive the management and planning fees from the client. Under California Code of Regulations (CCR) section 260.238 (k) the FA will disclose all material conflicts of interest which may be expected to impair the rendering of unbiased and objective advice to a Client. Examples will be compensation from mutual funds, execution of securities transactions from sale or purchase of general securities, bonds and exchange traded funds, variable annuities, life insurance, limited partnerships or services from a third party or custodian. In general any implementation may cause a form of compensation that has to be disclosed to the Client. It is also true that the FA may receive no compensation from implementation of the recommendations other than the fees agreed upon by Client. Lower fees for comparable services may be available from other sources or from the Client implementing on his/her own.

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

PFA does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client). In general performance-based compensation may create an incentive for the FA to recommend an investment that may carry a higher degree of risk to the client.

## **Item 7 – Types of Clients**

PFA provides portfolio management services to individuals, corporations, businesses, pension and profit-sharing plans.

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

Investing always involves risk of losses that clients should be prepared to bear. Unfortunately neither PFA nor its FA can provide any assurance from the potential losses of the various markets. If a client

cannot stand the possibilities of loss, then they should only consider guaranteed returns and not do business with PFA.

Under the PAM program, a model portfolio program may be offered to clients composed of independent investment managers that have no direct relationship with FA, PFA or client and do not tailor the models to any specific client's needs. Such third party advisors, if used, will be identified and the client may choose to accept the recommendation by FA. The fees for these services would be identified at the time of recommendation through a separate contract. Some third party advisors may charge more than a mutual fund may charge and the recommendation to use a third party advisor would be made based on the size and risk tolerance of a client. Some such third party advisors may be Goldman-Sachs, Wilshire Associates, Standard & Poors, Analytic Investors, R. Meeder & Associates, SEI, Lockwood and AssetMark. The FA would interact between the third party advisor and maintaining the relationship with the client, so that the client will only deal with their FA.

PAM may assist the client in selecting the model portfolio that best suits their objectives. The client then specifically directs the account to be invested in accordance with the chosen model portfolio. When a client selects the model portfolio, the client further directs the account to be automatically adjusted to reflect any adjustment in the model portfolio by the investment manager. This client authorization would result in the purchase and sale of certain mutual funds (or transfers between variable annuity sub-accounts) without further authorization by the client at such time as the investment manager changes the composition of the selected model portfolio. The client receives confirmation of all transactions in the account and is free to terminate their participation in the program and retain or dispose of any assets in the account at any time.

Risks of investing in an asset allocation model vary from the regular risks based on the individual securities held in a mutual fund (equity security, company, underlying fund, closed-end, debt security, junk bond, interest rate, foreign securities, small cap, emerging market, real estate investment trusts, convertible securities, options, futures and other derivatives risks) as well as that they typically do not rise or fall in value as fast (as an individual stock issue), since the allocation is normally over a broader based segment of the markets.

The FA in general may use either a fundamental, technical, charting and cyclical analysis. FA's basic approach is to analyze the client's current position and objectives and recommend basic strategies (long and short term and trading activities) for achieving their goals. Its' analysis will generally deal with generic classes of investments rather than specific, individual securities. The information may be gathered from any number of different resources; financial newspapers, magazines, research material prepared by others, corporate rating and inspection services, timing services, annual reports, filings and other information gathered by other FAs with PFA.

FA will ascertain the client's goals and recommend investment strategies appropriate in light of these objectives. If the client thinks that there maybe too much risk or more risk than they are willing to bare then they should immediately advise the FA so that changes can be made. These recommendations generally involve long-term strategies, but may also include other strategies as indicated by the client's objectives. Particular emphasis is placed on the appropriate allocation of assets to achieve a level of diversification, risk, liquidity and tax advantages/benefits. If a client is using the PAM program then their portfolio is monitored quarterly, otherwise it will depend on the frequency stated on the Client

Agreement. If no Client or PAM Agreement exists then the account may be reviewed only when the client requests to renew their contract.

When transactions are decided upon to be implemented by the client, then if the account is tax-deferred, no tax consequences are likely as long as the transactions remain in the tax-deferred account (such as an IRA, pension plan or annuity) otherwise, a client may find that they owe additional taxes at the end of a tax year. Normally, the decision to sell a stock or mutual fund is made on the basis of improving the performance of the portfolio and not to minimize taxes. Clients should be reminded to seek advice from their tax professionals before selling any asset and inform the FA should they not want to incur tax consequences. The FA (in the advisor capacity) is not a tax professional and does not render tax advice in such a capacity. Tax consequences are always secondary to long term investment decisions for the FA.

## **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of PFA or the integrity of PFA's management. PFA has not been found liable in a civil, self-regulatory organization in any of the following: an investment or investment related business, fraud, false statements or omissions, theft, embezzlement or other wrongful taking property, bribery, forgery, counterfeiting or extortion, dishonest, unfair or unethical practices

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

Each FA with PFA is a registered representative with Pacific Financial Associates Inc., a registered broker/dealer with FINRA, and in such capacity may: (i) effect securities transaction for compensation as a broker or agent for a PFA client; (ii) sell securities to or buy securities from a PFA client; (iii) as a broker or agent for a person other than a PFA client sell securities to or buy securities from a PFA client; (iv) recommend to PFA clients or prospective clients the purchase or sale of securities in which PFA has a position of interest. A FA may have an interest in certain of such securities in that he/she may invest in such securities and may receive commissions relating to the sale of such securities; and (v) recommend certain real estate brokers or dealers, accounting firms, law firms, pension consultants, banking or thrift institutions, other investment advisors, mortgage brokers, financial planning firms or entities that create or package limited partnerships which may compensate or reward the FA for referring a client. Neither FAs nor PFA pay third parties for client referrals. A FA, when acting as a registered representative, may only recommend securities that have prior approval by Pacific Financial Associates, Inc. This also may represent a conflict of interest. In order to avoid potential conflicts of interest in connection with these circumstances, PFA follows the procedure of having the client decide and not requiring the client to follow any specific recommendations to implement through the FA. Every client is free to implement their recommendations through brokers, agents, firms, or institutions of their own choice. A client when investing in either mutual funds, variable annuities, stocks, bond or wrap accounts will be paying in effect multiple fees. In the worst case a client may pay for the investment vehicle's management and



administrative fees, portfolio advisor or third party advisor fees, sales charges, if any, as well as the FA's advisory fees. The client may also pay for set-up and custodial fees charged by the investment custodian, if applicable. Clients have to fully understand what all the fees and benefits are being offered by the FA. FA will want to make sure that the client has a complete understanding of what fees or commissions are involved with the investment vehicle.

## **Item 11 – Code of Ethics**

PFA has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct, and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition of rumor mongering, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at PFA must acknowledge the terms of the Code of Ethics annually, or as amended.

PFA anticipates that, in appropriate circumstances, consistent with clients' investment objectives, it will cause accounts over which PFA has management authority to effect, and will recommend to investment advisory clients or prospective clients, the purchase or sale of securities in which PFA, its affiliates and/or clients, directly or indirectly, have a position of interest. PFA's employees and persons associated with PFA are required to follow PFA's Code of Ethics. Subject to satisfying this policy and applicable laws, officers, directors and employees of PFA and its affiliates may trade for their own accounts in securities which are recommended to and/or purchased for PFA's clients. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of PFA will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code certain classes of securities have been designated as exempt transactions, based upon a determination that these would materially not interfere with the best interest of PFA's clients. In addition, the Code requires pre-clearance of many transactions, and restricts trading in close proximity to client trading activity. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code of Ethics, and to reasonably prevent conflicts of interest between PFA and its clients. PFA's clients or prospective clients may request a copy of the firm's Code of Ethics by contacting Charles Mann.

It is PFA's policy that the firm will not affect any principal or agency cross securities transactions for client accounts. PFA will also not cross trades between client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. A principal transaction may also be deemed to have occurred if a security is crossed between an affiliated hedge fund and another client account. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person

controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. Agency cross transactions may arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer.

## **Item 12 – Brokerage Practices**

PFA may recommend broker-dealers for client transactions on the basis that the execution is reasonable and reliable. The criteria for selecting a broker-dealer will not be based on the lowest cost transaction, but on the orderly execute on a timely basis. From time to time PFA may recommend a different broker-dealer or chose to change to a better executing firm that is willing to work with PFA for the client's benefit. PFA does not receive any hard or soft dollar compensation from such firms. If FA uses Pacific Financial Associates, Inc an affiliated broker/dealer, then there may be a conflict of interest and compensation to the FA (see item 10 and 11).

## **Item 13 – Review of Accounts**

Clients should inform FA and seek a review in light of changes to economic conditions, goals, objectives, changing needs and risk tolerances. Any such review or renewal is subject to the client entering into a Client Agreement and or paying a fee based on the client agreement. As with the fee for the initial plan, fees for renewals will depend upon the complexity of the client's circumstances and will be agreed upon before providing the service. Neither the FA nor PFA assumes any responsibility for ongoing reviews unless agreed and paid.

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

PFA does not compensate third parties for client referrals.

## **Item 15 – Custody**

PFA will not act as a custodian for client's accounts and funds. Clients should receive at least quarterly independent statements from the broker dealer, mutual funds, bank or other qualified custodian that holds and maintains client's investment assets. PFA urges you to carefully review such statements for accuracy and completeness. FA may provide you with a summary statement that may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities. The main statement will always be provided by the financial institution that has transacted on your behalf.

## **Item 16 – Investment Discretion**

PFA does not require discretionary authority from the client of an advisory relationship to select the identity, the time and amount of securities to be bought or sold. Although the Advisor may recommend certain investment, none are executed without prior client approval.

When advising on securities and determining amounts, PFA observes the investment policies, limitations and restrictions of the clients for which it advises and then asks the client if investing in a specific mutual fund, variable security or general security fits within the scope of the client. PFA's authority to trade securities is limited by a client's prior consent. Investment guidelines and restrictions must be provided to PFA in writing.

## **Item 17 – Voting *Client* Securities**

As a matter of firm policy and practice, PFA does not have any authority to and does not vote proxies on behalf of advisory clients. Clients retain the responsibility for receiving and voting proxies for any and all securities maintained in client portfolios. PFA may provide advice to clients regarding the clients' voting of proxies.

## **Item 18 – Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about PFA's financial condition if PFA or FA charged PAM fees in advance of six months. Since PFA does not charge fees six months in advance, PFA has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.

## **Item 19 – Requirements for State-Registered Advisers**

PFA or management have not been involved with any fraud, theft, embezzlement or wrongful taking, bribery, forgery, extortion, unfair or unethical practices.

Charles Mann is the President of PFA and the principal shareholder of the company. He is 64 and graduated from the University of Glasgow, Glasgow, Scotland in Mechanical and Aeronautical Engineering, and Naval Architecture. He obtained a Masters in Business Administration in Finance and Economics from Gannon University, Erie, Pennsylvania. He completed a Masters in Science of Taxation from Golden Gate University, San Francisco, California. Mr. Mann completed a Ph.D. program in Business Administration from California Coast University with the dissertation topic on "Banks: Will There Be a Phoenix or Dinosaur in the Changing Financial Services Industry", 1998. Mr. Mann was conferred the designation of

Certified Financial Planner (CFP) by the College for Financial Planning in Denver, Colorado. He is an arbitrator for the Financial Industry regulatory Agency (FINRA) since 2004. Mr. Mann's area of expertise is that of financial planning and maximizing the benefits of professional corporations and business owners. He has terminated his membership and license with the Certified Financial Planners Board of Standards. Mr. Mann's business and corporate expertise comes from over ten years of management experience in which he rose through the corporate ranks to become Vice President/General Manager of an International Division of a billion-dollar container corporation. In 1979 Mr. Mann started his direct involvement in the financial planning industry when he worked for a financial planning firm before founding Professional Financial Advisors, Inc. in 1983. Mr. Mann is principal stockholder and founder of Professional Financial Advisors, Inc., and of Pacific Financial Associates, Inc., a registered broker-dealer with FINRA. Charles spends most of his time between both firms and is a firm believer in community work and has served as a member of the board and committee chairperson for several non-profit organizations. He has taught courses in finance and investments at colleges through Southern California.

Jeri L. Mann is 58 and office manager and assistant compliance officer. Her experience is in tax accounting, income tax reporting and finance. She received the professional designation of Certified Financial Planner from the College for Financial Planning in Denver, Colorado. She has received the designation as an Enrolled Agent (EA) by the Department of The Treasury. Jeri spends most of her time handling income tax reporting for clients.