

Item 1 – Cover Page

Kabarec Financial Advisors, Ltd.

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This brochure provides information about the qualifications and investment advisory business practices of Kabarec Financial Advisors, Ltd. If you have any questions about the contents of this brochure please contact us at 847-934-7777 or info@kabarec.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any state securities authority.

Additional information about Kabarec Financial Advisors is also available on the Internet at www.adviserinfo.sec.gov. You can view our information on this website by searching for “Kabarec Financial Advisors”. You can also search using the Firm’s CRD number which is **105689**.

*Registration as an investment advisor does not imply a certain level of skill or training.

Item 2 – Material Changes

Since our last annual update was filed in March 2011, the only material change to our disclosure brochure is a decrease in the amount of client assets our firm manages. As of our last annual update in March 2011, we managed \$171,178,191.00. The current amount of client assets under our management is \$156,380,756. Please refer to Item 4 – Advisory Business for more details. In addition, we have updated Item 9 – Disciplinary Information, to reflect an Illinois regulatory action.

We will ensure that you receive a summary of material changes, if any, to this and subsequent disclosure brochures within 120 days after our fiscal year ends. Our fiscal year ends on December 31 so you will receive the summary of material changes, if any, no later than April 30 each year. At that time we will also offer a copy of the most current disclosure brochure. We may also provide other ongoing disclosure information about material changes as necessary.

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Item 4 – Advisory Business

General Description of Advisory Firm

Kabarec Financial Advisors, Ltd. is an investment advisor registered with the United States Securities and Exchange Commission (“SEC”) and is a corporation formed under the laws of the State of Illinois.

- The Firm has been registered as an investment advisor since December 5, 1986.
- Michael Kabarec is the majority owner of the Firm’s stock. No other individual owns more than 25% of the Firm’s stock.
 - Mr. Kabarec is the founder and President of Kabarec Financial Advisors.
 - Kirk Hackbarth joined Kabarec Financial Advisors in February 2003 as a Senior Financial Planner and also serves as the Chief Compliance Officer.
- Through Kabarec Financial Advisors, we offer wealth management services through our Financial Planning and Asset Management Services. Wealth management services combine both Financial Planning and Asset Management Services. However, we charge for financial plans separate from our asset management services.

Clients are advised that the investment recommendations and advice offered by Kabarec Financial Advisors does not constitute legal or accounting advice. Therefore, you should coordinate and discuss the impact of financial advice with your attorney and/or accountant. Clients are advised that it is necessary to inform Kabarec Financial Advisors promptly with respect to any changes in their financial situation, investment goals and objectives. Failure to notify Kabarec Financial Advisors of any such changes could result in investment recommendations not meeting the needs of the client.

Description of Advisory Services

Financial Planning Services

We provide advisory services in the form of financial planning consultations and written financial plans. Financial planning services do not involve the active management of client accounts, but instead focus on a client’s overall financial situation. Financial planning can be described as helping individuals determine and set their long-term financial goals, through investments, tax planning, asset allocation, risk management, retirement planning, and other areas. The role of a financial planner is to find ways to help the client understand his/her overall financial situation and help the client set financial objectives.

Financial planning services are usually prepared for each client before investments are transferred or changes are initiated to portfolios that have been transferred to Kabarec Financial Advisors for its Asset Management Services (see following section). Financial planning services may be specific or modular in their preparation (unique to each client in their depth of preparation). Specific issues covered in a financial plan are contingent upon the each client’s unique needs and circumstances, but the following are basic areas our plans may focus on.

1. Retirement planning
2. Educational funding
3. Insurance analysis

4. Estate planning
5. Specific investment recommendations
6. Employee stock options analysis/concentrated positions

Financial planning services may take into consideration factors such as your financial/investment objectives, risks you are willing to undertake, investment knowledge, net worth, income, age, projected retirement, unusual or material funding requirements, inheritance possibilities, pensions, social security, children/relative funding issues, estate issues, and living expenses expressed in today's dollars requested for retirement. Based on the previous data and information compilation, suitable investments are selected for your portfolio.

While financial planning services are prepared with the intention of clients implementing recommendations made within the plan through our Asset Management Services, you are not obligated to do so. If you elect to implement our advice provided as part of the financial planning services, implementation will be made through the Asset Management Services described below.

See Item 5 of this Brochure for fee descriptions.

Asset Management Services

Asset Management services involve providing clients with continuous and on-going supervision over client accounts. This means that we will continuously monitor a client's account and make trades in client accounts when necessary. Through this service, Kabarec Financial Advisors implements a customized and individualized investment program for clients by applying our investment strategy and philosophy. Kabarec Financial Advisors shall actively manage client investment portfolios in accordance with the client's individual needs, return objectives and risk tolerance.

Asset Management Services are provided through accounts at Charles Schwab & Company, Inc. as a result of the Firm's participation in the Schwab Advisor Solutions platform. Charles Schwab & Company, Inc. is a registered broker/dealer, members of the Financial Industry Regulatory Authority (FINRA) and the Securities Investors Protection Corporation (SIPC), and will serve as the client's qualified custodian and maintain physical custody of all client funds and securities. You must designate Kabarec Financial Advisors as your investment advisor on the accounts you'd like Kabarec Financial Advisors to manage. Kabarec Financial Advisors will be granted limited power-of-attorney on the account to implement trades within the account and (when agreed to by the client) deduct the Kabarec Financial Advisors advisory fees from the account. Please refer to Item 12 for more information regarding the Firm's brokerage arrangements.

Clients are always responsible for notifying Kabarec Financial Advisors of any changes to their financial situation or investment objectives. At least annually, we will contact each client for the specific purpose to determine whether the client's financial situation or investment objectives have changed, or if the client would like to impose and/or modify any reasonable restrictions on the management of their accounts. We are always reasonably available to consult with clients relative to the status of their accounts. A client's beneficial interest in a security does not represent an undivided interest in all the securities held by the custodian, but rather represents a direct and beneficial interest in the securities which comprise the accounts. A separate account is always maintained for each client with the broker-dealer/custodian and the client retains all rights of ownership to their accounts (e. g. right to withdraw securities or cash, exercise or delegate proxy voting, and receive transaction confirmations).

It is important that you understand that Kabarec Financial Advisors manages investments for other clients and may give them advice or take actions for them or for our personal accounts that is different from the advice we provide to you or actions we take for you. We are not obligated to buy, sell or recommend to you any security or other investment that we may buy, sell or recommend for any other clients or for our own accounts.

Conflicts may arise in the allocation of investment opportunities among accounts that we manage. We strive to allocate investment opportunities believed appropriate for your account(s) and other accounts advised by our Firm among such accounts equitably and consistent with the best interests of all accounts involved. However, there can be no assurance that a particular investment opportunity that comes to our attention will be allocated in any particular manner. If we obtain material, non-public information about a security or its issuer that we may not lawfully use or disclose, we have absolutely no obligation to disclose the information to any client or use it for any client's benefit.

See Item 5 of this Brochure for fee descriptions.

Types of Investments

We are willing to offer advice on most types of investments owned by a client and, at the specific request of a client we will explore investment options not currently owned by a client. However, we do not provide advice on options contracts on commodities, or futures contracts on tangibles or intangibles.

The following are some of the general categories of securities that we will advise.

- Exchange-listed securities
- Securities traded over-the-counter
- Exchange Traded Funds (ETFs)
- Foreign issues
- Warrants
- Corporate debt securities (other than commercial paper)
- Commercial paper
- Certificates of deposit
- Municipal securities
- Mutual fund shares (primarily no-load mutual funds and funds sold at Net-Asset-Value (NAV))
- United States government securities
- Interests in partnerships investing in real estate, oil and gas interests, equipment leasing, cable television
- We also offer advice on so-called "alternative investments" which can be defined as an investment that is not one of the three traditional asset types (stocks, bonds and cash). Most alternative investment assets are held by institutional investors or accredited, high-net-worth individuals because of their complex nature, limited regulations and relative lack of liquidity. Alternative investments include hedge funds, managed futures, real estate, commodities and derivatives contracts. These types of investments are often illiquid, which means that the investments can be difficult to trade and consequently can limit a client's ability to sell the investments in a timely manner and at an advantageous price. Additionally, some investments may not have registered pursuant to the Securities Act of 1933, and therefore the client will need to complete a subscription agreement showing the client is an "accredited" investor (as defined by applicable law and rules and regulations) and acknowledge that he or she has read and

understands the private placement memorandum and is aware of the various risk factors associated with such an investment.

When providing Asset Management Services, we typically construct each client's account holdings using low-fee mutual funds and no-load mutual funds to build diversified portfolios. We will hold individual stocks and bonds for larger portfolios as well as ETFs. It is not Kabarec Financial Advisors typical investment strategy to attempt to time the market but we may increase cash holdings modestly as deemed appropriate, based on your risk tolerance and our expectations of market behavior. We may modify our investment strategy to accommodate special situations like: low basis stock, stock options, legacy holdings, inheritances, closely held businesses, or special tax situations.

Tailor Advisory Services to Individual Needs of Clients

Our services are always provided based on the individual needs of each client. This means, for example, that you are given the ability to impose restrictions on the accounts we manage for you, including specific investment selections and sectors. We work with each client on a one-on-one basis through interviews and questionnaires to determine the client's investment objectives and suitability information.

Client Assets Managed by Kabarec Financial Advisors, Ltd.

The amount of clients assets managed by Kabarec totaled \$156,380,756 as of December 31, 2011. \$150,717,761 is managed on a discretionary basis and \$5,662,995 is managed on a non-discretionary basis (please refer to Item 16 – Investment Discretion).

Item 5 – Fees and Compensation

In addition to the information provide in Item 4 – Advisory Business, this section provides details regarding our Firm's services along with descriptions of each service's fees and compensation arrangements. Please note that lower fees for comparable services may be available from other sources.

Description of Advisory Fees

Fees for Financial Planning Fees

Hourly Rates

Fees for financial planning services are billed at an hourly rate of \$250. A negotiable estimate of the amount of hours needed to complete financial planning services, the hourly fee that will be charged, and the terms of payment will be disclosed and agreed upon prior to any services being provided in the agreement for services. If it is determined that the total cost will exceed the maximum amount quoted, we will contact you to receive authorization to provide additional services. Hourly fees are always due, in-arrears, after completion of the plan or consultation.

Fixed-Fee Option

Clients are also given the option of paying a flat fee in lieu of the hourly charge. The minimum fee we charge when providing services on a flat-fee basis is \$2,500. Generally, our maximum flat fee does not exceed \$7,500. One-half of the estimated fees are due upon execution of the contract for financial planning services with the remaining about due upon completion of the financial plan. Fixed-fee arrangements are negotiable based on the complexity of the services to be provided.

Financial planning services may be terminated by Kabarec Financial Advisors or the client by providing notice to the other party. However, refunds and final fee payments will be contingent upon the number of hours devoted to the project and the client will be responsible for all time expended prior to termination even if the planning process is not complete.

Fees for Asset Management Services

Clients are charged for our Asset Management Services based on a percentage of assets under management. The following fee schedule is provided as an example of the fees that may be charged to clients based on the amount of client assets managed by our Firm. The following fee schedule is provided for illustrative purposes only.

<u>Total Client Assets</u>	<u>Annual Fee</u>
\$0-\$250,000	1.5% of assets
\$250,000-\$1,000,000	1.0% of assets
\$1,000,000 & over	0.8% of assets

The actual fee charged to each client is negotiable based on factors such as the client's financial situation and circumstances, the amount of assets under management, and the complexity of the services provided. The exact fee for services will be agreed upon and disclosed in the agreement for services prior to services being provided.

Fees are billed quarterly in advance based on the market value of the account at the end of the previous quarter plus any amount necessary to reimburse Kabarec Financial Advisors for any expenses incurred on behalf of the client. The quarterly fee shall be adjusted each quarter to reflect changes in the market value of the account(s). The quarterly fee for initial quarters is pro-rated based on the number of days remaining in the quarter using the value of the account at the beginning of the client relationship.

Fees are generally deducted directly from the client's account. Clients must provide the custodian with written authorization to have fees deducted from the account and paid to Kabarec Financial Advisors. With our approval, you may pay fees directly to Kabarec Financial Advisors. For clients that pay directly, payment is due upon receipt of the billing statement. *See Item 16 of this Disclosure Brochure for information regarding custody.*

Brokerage commissions and/or transaction ticket fees charged by the custodian will be billed directly to the client. Kabarec Financial Advisors will not receive any portion of such commissions or fees from the custodian or client. In addition, clients may incur certain charges imposed by third parties other than Kabarec Financial Advisors in connection with investments made through the account, including but not limited to, mutual fund sales loads, 12b-1 fees and surrender charges, variable annuity fees and surrender charges, and IRA and qualified retirement plan fees. Management fees charged by Kabarec Financial Advisors are separate and distinct from the fees and expenses charged by investment company securities that may be recommended to clients. A description of these fees and expenses are available in each investment company security's prospectus.

Portions of most clients' portfolios are in mutual funds. The mutual funds pay advisory fees to the fund advisor and/or managers which reduce the net asset value of their mutual fund holdings. In addition, we bill our clients on an advisory fee based on the value of our client's total portfolio which includes their mutual fund holdings. As a result, clients pay two levels of advisory fees for the management of their

assets, both directly to us, and indirectly through the management fees assessed by the funds making up their portfolio.

Whenever possible, we use services of “no-load” or low load products that do not require the use of a broker to handle the transaction. However, for most clients, no-load mutual funds may be purchased through discount brokers with a transaction charge, even though these funds may be purchased directly from the mutual fund companies without a transaction charge. This is done for the convenience of “switching” and investment consolidation for the client and Kabarec Financial Advisors.

Services will remain in effect for at least three (3) months. After the initial three (3) month period, either party may terminate the agreement by providing notice to the other party. Termination will be effective upon receipt of notification. Any unearned fees will be pro-rated based on the number of days remaining in the quarter and refunded to the client.

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

Item 6 of the Form ADV Part 2 instructions is not applicable to this Disclosure Brochure because Kabarec Financial Advisors, Ltd. does not charge or accept performance-based fees which can be defined as fees based on a share of capital gains on or capital appreciation of the assets held within a client’s account.

Item 7 – Types of Clients

We generally provide investment advice to the following types of clients:

- Individuals (including trusts and estates)
- Pension and profit sharing plans
- Corporations and small businesses

Minimum Investment Amounts Required

The minimum investment amount required for our Asset Management Services is generally \$500,000. However, that amount is negotiable and may be waived at the discretion of Kabarec Financial Advisors.

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

Kabarec Financial Advisors, Ltd. uses the following methods of analysis in formulating investment advice.

Charting - The set of techniques used in technical analysis in which charts are used to plot price movements, volume, settlement prices, open interest, and other indicators, in order to anticipate future price movements. Users of these techniques, called chartists, believe that past trends in these indicators can be used to extrapolate future trends.

Fundamental - A method of evaluating a security by attempting to measure its intrinsic value by examining related economic, financial and other qualitative and quantitative factors. Fundamental analysts attempt to study everything that can affect the security's value, including macroeconomic factors (like the overall economy and industry conditions) and individually specific factors (like the financial condition and management of companies). The end goal of performing fundamental analysis is to produce a value that an investor can compare with the security's current price in hopes of figuring out

what sort of position to take with that security (underpriced = buy, overpriced = sell or short). This method of security analysis is considered to be the opposite of technical analysis. Fundamental analysis is about using real data to evaluate a security's value. Although most analysts use fundamental analysis to value stocks, this method of valuation can be used for just about any type of security.

Technical - A method of evaluating securities by analyzing statistics generated by market activity, such as past prices and volume. Technical analysts do not attempt to measure a security's intrinsic value, but instead use charts and other tools to identify patterns that can suggest future activity. Technical analysts believe that the historical performance of stocks and markets are indications of future performance.

Kabarec Financial Advisors uses the following investment strategies when managing client assets and/or providing investment advice.

- ✓ Long term purchases - Investments held at least a year.
- ✓ Short term purchases - Investments sold within a year.
- ✓ Trading - Investments sold within 30 days.
- ✓ Margin transactions. When an investor buys a stock on margin, the investor pays for part of the purchase and borrows the rest from a brokerage firm. For example, an investor may buy \$5,000 worth of stock in a margin account by paying for \$2,500 and borrowing \$2,500 from a brokerage firm. Clients cannot borrow stock from Kabarec Financial Advisors.
- ✓ Option writing including covered options, uncovered options, or spreading strategies. Options are contracts giving the purchaser the right to buy or sell a security, such as stocks, at a fixed price within a specific period of time.

Risk of Loss

Clients must understand that past performance is not indicative of future results. Therefore, current and prospective clients (including you) should never assume that future performance of any specific investment or investment strategy will be profitable. Investing in securities (including stocks, mutual funds, and bonds) involves risk of loss. Further, depending on the different types of investments there may be varying degrees of risk. Clients and prospective clients should be prepared to bear investment loss including loss of original principal.

Because of the inherent risk of loss associated with investing, our Firm is unable to represent, guarantee, or even imply that our services and methods of analysis can or will predict future results, successfully identify market tops or bottoms, or insulate you from losses due to market corrections or declines. There are certain additional risks associated when investing in securities through our investment management program.

- Market Risk – Markets as a whole decrease in value. This is also referred to as systemic risk.
- Equity (stock) market risk – Common stocks are susceptible to general stock market fluctuations and to volatile increases and decreases in value as market confidence in and perceptions of their issuers change. If you held common stock, or common stock equivalents, of any given issuer, you would generally be

exposed to greater risk than if you held preferred stocks and debt obligations of the issuer.

- Company Risk. When investing in stock positions, there is always a certain level of company or industry specific risk that is inherent in each investment. This is also referred to as unsystematic risk and can be reduced through appropriate diversification. There is the risk that the company will perform poorly or have its value reduced based on factors specific to the company or its industry. For example, if a company's employees go on strike or the company receives unfavorable media attention for its actions, the value of the company may be reduced.
- Fixed Income Risk. When investing in bonds, there is the risk that issuer will default on the bond and be unable to make payments. Further, individuals who depend on set amounts of periodically paid income face the risk that inflation will erode their spending power. Fixed-income investors receive set, regular payments that face the same inflation risk.
- Options Risk. Options on securities may be subject to greater fluctuations in value than an investment in the underlying securities. Purchasing and writing put and call options are highly specialized activities and entail greater than ordinary investment risks.
- ETF and Mutual Fund Risk – When we invest in an ETF or mutual fund for a client, the client will bear additional expenses based on its pro rata share of the ETFs or mutual fund's operating expenses, including the potential duplication of management fees. The risk of owning an ETF or mutual fund generally reflects the risks of owning the underlying securities the ETF or mutual fund holds. Clients will also incur brokerage costs when purchasing ETFs.
- Management Risk – Your investment with our Firm varies with the success and failure of our investment strategies, research, analysis and determination of portfolio securities. If our investment strategies do not produced the expected returns, the value of the investment will decrease.
- Margin Risk - When you purchase securities, you may pay for the securities in full or you may borrow part of the purchase price from your broker/dealer. If you intend to borrow funds in connection with your account, you will be required to open a margin account, which will be carried by the broker/dealer of your account. The securities purchased in such an account are the broker/dealer's collateral for its loan to you.

If the securities in a margin account decline in value, the value of the collateral supporting this loan also declines, and, as a result, a brokerage firm is required to take action, such as issue a margin call and/or sell securities or other assets in your accounts, in order to maintain necessary level of equity in the account.

It is important that you fully understand the risks involved in trading securities on margin, which are applicable to any margin account that you may maintain, including any Margin

Account that may be established as a part of our Investment Management Services and held by your broker/dealer. These risks include the following:

- You can lose more funds than you deposit in your margin account.
- The broker/dealer can force the sale of securities or other assets in your account.
- The broker/dealer can sell your securities or other assets without contacting you.
- You are not entitled to choose which securities or other assets in your margin account that may be liquidated or sold to meet a margin call.
- The broker/dealer may move securities held in your cash account to your margin account and pledge the transferred securities.
- The broker/dealer can increase its “house” maintenance margin requirements at any time and are not required to provide you advance written notice.
- You are not entitled to an extension of time on a margin call.

Item 9 – Disciplinary Information

After conducting an internal compliance review, we discovered that Mike Kabarec and Kirk Hackbarth were not licensed as investment advisor representatives as required by Illinois regulations. The Illinois Securities Department requires investment advisor representatives with a client base of at least 10% non-accredited investors to meet certain minimum qualifications and license with the department. Although we have a high percentage of accredited clients in Illinois (approximately 78% during the time period in question), our investment advisor representatives could not rely on the exemption to registration which is available to investment adviser representatives when 90% or more of their clients are accredited investors. The reason an investment advisor representative registration was not filed on behalf of Mike Kabarec and Kirk Hackbarth was an administrative oversight. In fact, the issue was overlooked by our prior outside legal counsel and outside compliance consulting staff.

During the time period in question and since 1984, Kabarec Financial Advisors was properly registered with the U.S. Securities and Exchange Commission and duly notice filed with the Illinois Securities Department. Although Mike Kabarec and Kirk Hackbarth were not licensed as an investment advisor representatives, both gentleman were CERTIFIED FINANCIAL PLANNER™ practitioners which serves as valid qualification for investment advisor representative registration.

In July 2011, we took the necessary steps to request registration for both individuals. Upon submitting the required forms, the Illinois Securities Department initiated a review to determine if Messrs. Kabarec and Hackbarth provided investment advisory services to residents of the state of Illinois at a time when they were not in compliance with the state's registration requirements. After corresponding with the Illinois Securities Department, our firm agreed to pay a fine in the total amount of \$37,000. The sum was allocated as a fine for not previously registering Messrs. Kabarec and Hackbarth, back registration fees and to cover the state's costs to investigate the matter.

Item 10 – Other Financial Industry Activities and Affiliations

Kabarec Financial Advisors is an independent investment advisory firm and only provides investment advisory services. The Firm is not engaged in any other business activities and offers no other services than those described in this Disclosure Brochure. We do not have any arrangements whereby we recommend (or refer) clients to a third-party investment advisor, nor do we receive referrals from a third-party investment advisor.

Kabarec is **not** and does **not** have a related company that is a (1) broker/dealer, municipal securities dealer, government securities dealer or broker, (2) investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or “hedge fund,” and offshore fund), (3) other investment adviser or financial planner, (4) futures commission merchant, commodity pool operator, or commodity trading advisor, (5) banking or thrift institution, (6) accountant or accounting firm, (7) lawyer or law firm, (8) insurance company or agency, (9) pension consultant, (10) real estate broker or dealer, or (11) sponsor or syndicator of limited partnerships.

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

Code of Ethics Summary

Rule 204A-1 of the *Investment Advisers Act of 1940* requires all investment advisers to establish, maintain and enforce a Code of Ethics. Kabarec Financial Advisors has established a Code of Ethics that will apply to all of its associated persons. An investment adviser is considered a fiduciary according to the *Investment Advisers Act of 1940*. As a fiduciary, it is an investment adviser’s responsibility to provide fair and full disclosure of all material facts and to act solely in the best interest of each of our clients at all times. We have a fiduciary duty to all clients. This fiduciary duty is considered the core underlying principle for our Code of Ethics which also covers its Insider Trading and Personal Securities Transactions Policies and Procedures. We require all of our supervised persons to conduct business with the highest level of ethical standards and to comply with all federal and state securities laws at all times. Upon employment or affiliation and when changes occur, all supervised persons will sign an acknowledgement that they have read, understand and agree to comply with the advisor’s Code of Ethics. We have the responsibility to make sure that the interests of all clients are placed ahead of our interests or our supervised persons’ own investment interests. Full disclosure of all material facts and potential conflicts of interest will be provided to clients prior to any services being conducted. We must conduct business in an honest, ethical and fair manner and avoid all circumstances that might negatively affect or appear to affect our duty of complete loyalty to all clients.

This disclosure is provided as a summary of the Kabarec Financial Advisors Code of Ethics. However, if a client or a potential client wishes to review the Code of Ethics in its entirety, a copy will be provided promptly upon request.

Affiliate and Employee Personal Securities Transactions Disclosure

The Firm’s officers and employees may from time to time purchase or sell the same investments as those recommended to clients. In addition, officers and employees may buy securities that are not offered to clients. The fact that our personnel may own the same securities that we recommend to clients presents potential conflicts between the investment interests of our personnel and our clients. To control for these conflicts, we have implemented several procedures in accordance with our Code of Ethics and Personal Securities Transactions Policies and Procedures:

- Personal accounts may include securities that are purchased for clients but they must be purchased at the same time or after when the security is purchased for the client (see our Aggregation of Clients Orders – Block Trading disclosure at Item 12).
- Securities may never be purchased based on inside information. To the extent we come in contact with inside information, our personnel are prohibited from discussing such information with clients.

- Employees are required to report transactions and holdings in certain reportable securities (as defined by SEC rules) to the Firm for review and monitoring performed by our Chief Compliance Officer.
- Quarterly, the Purchase and Sale Reports for all personnel accounts are run and purchase and sales for each employee is recorded as is the purchase and sale for securities for our clients. Reports are reviewed by our Chief Compliance Officer.
- Employees that do not comply with our Personal Securities Transactions Policies and Procedures are subject to disciplinary action including termination.

American Rubber Technologies, Inc.

Michael Kabarec was appointed to the Board of Directors of American Rubber Technologies, Inc., a venture capital investment. He is serving for convenience of his clients. In this capacity, he may receive de minimus board honorarium and reimbursement for travel expenses and stock options. He is an investor in the company. In addition, he may recommend the company as an investment to clients of Kabarec Financial Advisors. Mr. Kabarec's personal investment and arrangements with the company creates a conflict of interest when recommending the investment to clients because his decision to recommend the company may be based on his personal interests and not solely on the best financial interests of clients. To control for this conflict of interest, Kabarec Financial Advisors will actively monitor other, similar, private investments and will recommend investing in the company when it is suitable and appropriate for the client. In addition, Kabarec Financial Advisors will provide all information to the client before the client invests in the company. Clients are never obligated or required to invest in the company.

Item 12 – Brokerage Practices

Clients wishing to implement the advice provided in conjunction with financial planning services of Kabarec Financial Advisors are free to select any broker/dealer or investment advisor they wish and are so informed.

For clients that wish to establish a managed account or implement our financial planning advice through our Firm, Charles Schwab & Company, Inc. (Charles Schwab) will be used. Therefore, if when you sign an Asset Management Services agreement, you will need to establish a brokerage account with Charles Schwab if you do not already have an account at Charles Schwab. Charles Schwab is a registered broker-dealer, member SIPC, and will maintain custody of your assets and provide execution of securities transactions.

Please note that not all investment advisors require the use of a specific broker/dealer. Some investment advisors allow clients to select the broker/dealer. However, for compliance and operational efficiency purposes, we have decided to require all clients open accounts through Charles Schwab when participating in the Firm's Asset Management Services,

On a bi-annual basis, we will review alternative custodians in the marketplace for comparison to the currently used custodian, evaluating criteria such as overall expertise, cost competitiveness and financial condition. Quality of execution for custodians will be reviewed through trade journal evaluations. No single criteria will validate nor invalidate a custodian, but rather, all criteria taken together will be used in evaluating the currently utilized custodian.

The decision to require Charles Schwab is based on the Firm's participation in Schwab Advisor Solutions. Kabarec Financial Advisors is independently owned and operated and not affiliated with Charles Schwab.

Through the Schwab Advisor Solutions platform, Kabarec Financial Advisors is provided with access to Charles Schwab's institutional trading and custody services, which are typically not available to Charles Schwab retail investors. These services generally are available to independent investment advisors on an unsolicited basis, at no charge to them so long as a total of at least: \$10 million of Firm clients' assets is maintained in accounts at Schwab Advisor Solutions and is not otherwise contingent upon Kabarec Financial Advisors committing to Charles Schwab any specific amount of business (assets in custody or trading). Charles Schwab's services include brokerage, 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 Kabarec Financial Advisors' clients' accounts maintained in its custody, Charles Schwab generally does not charge separately for custody but is compensated by account holders through commissions or other transaction-related fees for securities trades that are executed through Charles Schwab or that settle into Charles Schwab accounts.

Charles Schwab also makes available to Kabarec Financial Advisors other products and services that benefit Kabarec Financial Advisors but may not benefit its clients' accounts. Some of these other products and services assist Kabarec Financial Advisors in managing and administering clients' accounts. These include software and other technology that provide access to client account data (such as trade confirmation and account statements); facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts); provide research, pricing information and other market data; facilitate payment of advisory fees from its clients' accounts; and assist with back-office functions; recordkeeping and client reporting. Many of these services generally may be used to service all or a substantial number of Kabarec Financial Advisors accounts. Schwab Advisor Solutions also makes available to Kabarec Financial Advisors other services intended to help Kabarec Financial Advisors manage and further develop its business enterprise. These services may include consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance and marketing. In addition, Charles Schwab may make available, arrange and/or pay for these types of services rendered to Kabarec Financial Advisors by independent third party providing these services to Kabarec Financial Advisors. While as a fiduciary, Kabarec Financial Advisors endeavors to act in its clients' best interests, and while the recommendation that clients maintain their assets in accounts at Charles Schwab may be based in part on the benefit to Kabarec Financial Advisors of the availability of some of the foregoing products and services; nevertheless, these products and services by facilitating the Firm's workload are also effectively benefiting our clients as well.

Prime Broker Services

Through our relationship with Schwab, we can use the Charles Schwab Prime Broker service. This allows us to place trades with other broker/dealers without the need to have individual accounts with the other broker/dealers. The use of Prime Broker allows greater flexibility to access more fixed income products, ability to access Initial Public Offerings (IPOs), and the ability to access new issue bonds. All assets will be kept in a Schwab account with all confirmations and statements generated by Charles Schwab.

We select other broker/dealers based on the quality of research, services, products offered, execution and commission structures. Both discount and full service broker/dealers may be used, but the lowest cost broker/dealer may not always be utilized. We have not entered into any formal soft-dollar arrangements nor do we receive any referrals from broker/dealers available through the Charles Schwab Prime Broker service.

Trade Errors

Based on industry practice and SEC guidance to broker-dealers, a trade error under this policy is defined as including:

- Inaccurate transmission or execution of any term of an order including, but not limited to: price; number of shares or other unit of trading; identification of the security; identification of the account for which securities are purchased or sold; short sales that were instead sold long or vice versa; or the execution of an order on the wrong side of a market;
- Unauthorized (because of misunderstanding or mistake) or unintended purchase, sale or allocation of securities, or the failure to follow specific client instructions; and
- Incorrect entry of data into relevant systems, including reliance on incorrect cash positions, withdrawals or securities positions reflected in an account.

From time to time an error may occur in submitting a trade order on behalf of the client. When this occurs Kabarec Financial Advisors may place a correcting trade with Charles Schwab. If an investment gain results from the correcting trade, the gain will remain in the clients account unless (1) the same error involved other client account(s) that should have received the gain, (2) it is not permissible for you to retain the gain, or (3) we confer with you and you decide to forego the gain.

If a loss occurs the client or Kabarec Financial Advisors will pay for the loss depending on how the error occurred. (If Schwab is the custodian then Schwab will maintain the loss or gain (if such gain is not retained in your account) if it is under \$100 to minimize and offset its administrative time and expense.) Generally, if related trade errors result in both gains and losses in the client's account, they may be netted. Gains of more than \$100 not retained in the client account, will be donated by Charles Schwab to a charity chosen by Charles Schwab.

Aggregation of Client Orders-Block Trading Policy

Transactions we implement for client accounts are generally effected independently, unless the Firm decides to purchase or sell the same securities for several clients at approximately the same time. This process is referred to as aggregating orders, batch trading or block trading and is used by the Firm when we believe such action may prove advantageous to clients. When we aggregate client orders, the allocation of securities among client accounts will be done on a fair and equitable basis. Typically, the process of aggregating client orders is done in order to achieve better execution, to negotiate more favorable commission rates or to allocate orders among clients on a more equitable basis in order to avoid differences in prices and transaction fees or other transaction costs that might be obtained when orders are placed independently. Under this procedure, transactions will be averaged as to price and will be allocated among the Firm's clients in proportion to the purchase and sale orders placed for each client account on any given day. When we determine to aggregate client orders for the purchase or sale of securities, including securities in which we may invest, we will do so in accordance with the parameters set forth in the SEC No-Action Letter, *SMC Capital, Inc.* It should be noted, we do not receive any additional compensation or remuneration as a result of aggregation.

Item 13 – Review of Accounts

Account Reviews and Reviewers

Financial planning services terminate upon presentation of the written plan or completion of the financial planning consultation services. Therefore, no reviews are conducted for these accounts. If clients elect

to have a review and update to an original financial plan, additional fees may be charged and clients may be required to sign a new client agreement.

Managed accounts are reviewed on a quarterly basis. The calendar is the main triggering factor, although more frequent reviews may be also be triggered by changes in client circumstances, client request, or unusual market activity. The underlying positions or holdings in client accounts are reviewed on a more frequent basis, usually at least weekly.

Accounts are reviewed by Michael P. Kabarec, Kirk R. Hackbarth, and Michelle L. Smalenbeger.

Statements and Reports

Clients will receive statements at least quarterly from the custodian (i.e. Charles Schwab) at which their accounts are maintained. Kabarec Financial Advisors provides performance and position reports on a quarterly or as-needed basis. Clients are encouraged to always compare reports provided by Kabarec Financial Advisors against the accounts statements delivered from the broker/dealer-qualified custodian.

Item 14 – Client Referrals and Other Compensation

Client Referrals

We do not directly or indirectly compensate outside parties for client referrals. However, we have established an employee bonus program that pays employees a portion of a client's assets under management fee to the employee when the client was referred or introduced by the employee to Kabarec Financial Advisors. Bonuses paid to employees are dependent on the client entering into an advisory agreement. The advisory fee charged to clients is not increased as a result of the bonus program.

Beginning in 1992, Kabarec Financial Advisors, Ltd., sold its accounting and tax preparation business to the accounting firm of Benham, Ichen, and Knox, L.L.P. (BIK). Because of this relationship, clients may be referred to BIK for accounting and tax services needed. In addition, BIK may refer clients to Kabarec Financial Advisors, Ltd. for Investment Advisory or Financial Planning Services. No compensation is paid to or received from BIK for the referral arrangement. Clients are not required, in any way, to work with BIK.

Other Compensation

The only form of direct compensation received from advisory services is the fees charged for providing investment advisory services as described in Item 5 of this brochure. However, some mutual fund and/or broker dealer companies from time to time hold meetings or conferences for business and educational purposes. The mutual fund and/or broker/dealer may pay for all or a portion of the travel or lodging expense to attend these business or educational conferences.

In addition, gifts of a de minimus nature including lunches or dinner, golf or entertainment, may be received from time to time from mutual fund companies, broker/dealers, or referral sources. Also, de minimus gifts may be given to related professionals who may be potential referral sources.

Item 15 – Custody

Custody, as it applies to investment advisors, has been defined by regulators as having access or control over client funds and/or securities. In other words, custody is not limited to physically holding client funds and securities. If an investment advisor has the ability to access or control client funds or securities, the investment advisor is deemed to have custody and must ensure proper procedures are implemented.

Kabarec is deemed to have custody of client funds and securities whenever Kabarec is given the authority to have fees deducted directly from client accounts. However, this is the only form of custody Kabarec will ever maintain. It should be noted that authorization to trade in client accounts is not deemed by regulators to be custody.

For accounts in which we are deemed to have custody, the Firm has established procedures to ensure all client funds and securities are held at a qualified custodian in a separate account for each client under that client's name. Clients or an independent representative of the client will direct, in writing, the establishment of all accounts and therefore are aware of the qualified custodian's name, address and the manner in which the funds or securities are maintained. Finally, account statements are delivered directly from the qualified custodian to each client, or the client's independent representative, at least quarterly. Clients should carefully review those statements and are **urged** to compare the statements against reports received from us. When clients have questions about their account statements, they should contact us, or the qualified custodian preparing the statement.

Item 16 – Investment Discretion

Through our asset management services and upon receiving written authorization from a client, we will maintain trading authorization over client accounts. Upon receiving written authorization from the client, we may implement trades on a **discretionary** basis. When discretionary authority is granted, we will have the authority to determine the type of securities and the amount of securities that can be bought or sold for the client's portfolio without obtaining the client's consent for each transaction. However, it is our policy to consult with the client prior to making significant changes in the account even when discretionary trading authority is granted by the client.

We may elect to purchase bonds through bond brokers in order to obtain a better price for the client and then have the bonds delivered into the client's Charles Schwab brokerage account. This practice is called trading away and is done through the Charles Schwab Prime Brokerage platform. This is the only case in which we select a broker to be used without specific client consent. Charles Schwab may charge you a transaction fee for "trading away" through other bond brokers.

We actively try to negotiate the transaction costs our clients assessed by Charles Schwab.

If you decide to grant trading authorization on a **non-discretionary** basis, we will be required to contact you prior to implementing changes in your account. Therefore, you will be contacted and required to accept or reject our investment recommendations including:

- The security being recommended
- The number of shares or units
- Whether to buy or sell

Once the above factors are agreed upon, we will be responsible for making decisions regarding the timing of buying or selling an investment and the price at which the investment is bought or sold. If your accounts are managed on a non-discretionary basis, you need to know that if you are not able to be reached or are slow to respond to our request, it can have an adverse impact on the timing of trade implementations and we may not achieve the optimal trading price. In addition, discretionary management clients generally receive priority on orders placed. Clients who wish to discuss trades with us prior to trade implementation generally will not receive the same execution as other clients.

All clients have the ability to place reasonable restrictions on the types of investments that may be purchased in an account. Clients may also place reasonable limitations on the discretionary power granted to our Firm so long as the limitations are specifically set forth or included as an attachment to the client agreement.

Item 17 – Voting Client Securities

We will not vote proxies on behalf of your account. While there are some investment advisors that will vote proxies and other corporate decisions on behalf of their clients, we have determined that taking on the responsibility for voting client securities does not add enough value to the services provided to clients to justify the additional compliance and regulatory costs associated with voting client securities.

Therefore, it is your responsibility to vote all proxies for securities held in accounts managed by our Firm.

Clients will receive proxies directly from their custodian or transfer agent and such documents will not be delivered by our Firm. Although we do not vote client proxies, if you have a question about a particular proxy feel free to contact me.

Item 18 – Financial Information

This item is not applicable to this brochure. We do not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance. Therefore, we are not required to include a balance sheet for our most recent fiscal year. We are not subject to a financial condition that is reasonably likely to impair our ability to meet contractual commitments to clients. Finally, we have not been the subject of a bankruptcy petition at any time.